

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-SIXTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager, Regulatory Policy

AG-26-2      Please rewrite the ABRAM tariff without the lost base revenue provisions.  
Include a clean and redlined copy.

Response:    Please see Attachment AG-26-2(A) and AG-26-2(B) which are the  
respective clean and redlined tariff sheets.

**BAY STATE GAS COMPANY**

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

### **Section**

- 1.0** Purpose
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- 4.0** Definitions
- 5.0** Annual Base Rate Adjustment Formula
- 6.0** Determination of Initial Base Rates
- 7.0** Calculation of PBR Annual Rate Adjustment
- 8.0** Calculation of SIR Base Rate Adjustment
- 9.0** Reporting Requirements
- 10.0** Currently Effective Rate Adjustment Table

### **1.0 Purpose**

The purpose of the Annual Base Rate Adjustment Mechanism ("ABRAM") is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on an annual basis, its base rates for firm gas sales and firm transportation service pursuant to the Company's Performance Based Rate ("PBR") and Steel Infrastructure Replacement ("SIR") programs. The PBR program encompasses a price cap rate indexing mechanism, as well as earnings sharing above and below established thresholds and recovery of exogenous costs. The SIR program provides for base rate adjustments that allow Bay State to recover the costs associated with accelerated replacement of bare and unprotected coated steel distribution mains and other Eligible Facilities.

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Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

### **2.0 Effective Date**

The ABRAM shall be effective June 1, 2005 and shall continue subject to the terms of the PBR and SIR mechanisms set forth below. The initial rates established in accordance with Section 6.0 shall remain in effect until October 31, 2006. Subsequent base rate adjustments shall occur so long as either the PBR or SIR mechanisms remain effective. In the event that both the PBR and SIR mechanisms are terminated, the Company's base rates, as adjusted pursuant to the ABRAM, shall remain in effect until modified by the Department pursuant to a subsequent base rate proceeding.

#### **2.1 Term of PBR Base Rate Adjustment Mechanism**

The PBR Base Rate Adjustment mechanism shall continue for a term of five years through October 31, 2010. No further adjustment to the PBR component of the ABRAM shall occur after the completion of the five-year term ending October 31, 2010.

#### **2.2 Term of SIR Base Rate Adjustment Mechanism**

The SIR Base Rate Adjustment mechanism shall remain in effect until the Company's base rates are modified by the Department pursuant to a subsequent base rate proceeding.

### **3.0 Applicability**

This mechanism shall apply an adjustment to the base rates of each of the Company's firm sales and firm transportation Rate Schedules, subject to the jurisdiction of the Department, as determined in accordance with the provisions of this mechanism. Such ABRAM shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this mechanism.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 4.0 Definitions

The following definitions shall apply throughout the provisions of the ABRAM tariff.

- (1) **Base Rate Element** is any customer, volumetric or demand charge reflected in the Company's Rate Schedules that recovers a portion of the Company's base revenue requirement as established by the Department in its most recent base rate case.
- (2) **Base Rates** are the compilation of Base Rate Elements for all of the Company's Rate Schedules
- (3) **Calendar Year** is the annual period beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>.
- (4) **Customer Class** is the group of customers all taking service pursuant to the same Rate Schedule.
- (5) **Off-peak Period** is the continuous period from May 1<sup>st</sup> through October 31<sup>st</sup>.
- (6) **PBR Adjusted Base Rate** is the base rate in effect for the Prior Year plus the rate change calculated through the application of the PBR Price Cap Formula to the base rates in effect for the Prior Year.
- (7) **PBR Price Cap Formula** is the mathematical expression set forth in Section 7.3 used to calculate the percentage change in Base Rates for the Rate Year.
- (8) **Peak Period** is the continuous period from November 1<sup>st</sup> through April 30<sup>th</sup>.
- (9) **Prior Year** is the annual period ending immediately prior to the Rate Year.
- (10) **Rate Year** is the annual period that the adjusted base rates shall be effective beginning on November 1<sup>st</sup>.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

- (11) **SIR Revenue Requirements** are the revenue requirements for the Company's SIR program for the Rate Year.
- (12) **SIR Base Rate** is the total component of the Company's Base Rates that recovers the aggregate SIR Revenue Requirements for investments made over the duration of the SIR Program.

### 5.0 **Annual Base Rate Adjustment Formula**

The annual base rate adjustment formula shall be applied for each Base Rate Element of each Rate Schedule and shall be calculated in accordance with the following formula:

$$BR_T^{n,e} = (BR_{T-1}^{n,e} - BR\_SIR_{T-1}^{n,e}) \times (1 + PBR\_CAP_T^{n,e}) + BR\_SIR_T^{n,e}$$

#### **Where:**

$BR_T^{n,e}$	The Base Rate Element $e$ applicable to Rate Schedule $n$ for the Rate Year
$BR_{T-1}^{n,e}$	The Base Rate Element $e$ applicable to Rate Schedule $n$ for the Prior Year
$BR\_SIR_{T-1}^{n,e}$	The SIR Base Rate for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Prior Year
$PBR\_CAP_T^{n,e}$	The percentage change for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Rate Year calculated pursuant to the Company's PBR Program.

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

$BR\_SIR_T^{n,e}$       The SIR Base Rate for Base Rate Element  $e$  applicable to Rate Schedule  $n$  for the Rate Year

### **6.0      Determination of Initial Base Rates**

The initial base rates shall be those established by the Department in Docket No. D.T.E. 05-27. The initial base rates shall be set forth in Column (H) of the Currently Effective Rate Adjustment Table contained in Section 10.0 to be effective through October 31, 2006. The first ABRAM change to the initial base rates shall be effective November 1, 2006.

### **7.0      Calculation of PBR Annual Rate Adjustment**

#### **7.1      Description of PBR Program**

The Company's PBR program replaces traditional cost of service ratemaking with an incentive-based mechanism. The PBR program includes price cap, earnings sharing and exogenous components. The price cap component limits the change in base rates to the rate of input price inflation representative of the gas distribution industry less offsets for productivity and a consumer dividend. The earnings sharing component provides for sharing of earnings that are outside symmetrical bands above and below Bay State's authorized Return on Equity. The exogenous cost component allows the Company to reflect costs or credits in the PBR mechanism that derive from unanticipated events that are beyond Bay State's direct control.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 7.2 Definitions

- (1) **Average Unit Price** shall be the price per therm calculated by dividing the total base revenues for the Customer Class for the Prior Year by the normalized annual throughput for the class for the Prior Year.
- (2) **Basis Point** shall be one one-hundredth of a percentage point.
- (3) **Consumer Dividend** is the benefit to consumers of future productivity gains attributable to performance-based ratemaking for Bay State's services as established by the Department in D.T.E. 05-27.
- (4) **Earnings Sharing Bandwidth** is the percentage range equal to 400 Basis Points below the percentage Return on Equity authorized by the Department to 400 Basis Points above the percentage Return on Equity authorized by the Department.
- (5) **Exogenous Events** are occurrences that have a material and disproportionate impact on Bay State that are beyond the Company's control and are not otherwise reflected in the PBR formula.
- (6) **Input Price Trend** is the measure of change in the prices for all inputs used to provide regulated gas distribution services.
- (7) **Productivity Trend** is the measure of change in productivity associated with providing regulated gas distribution services.
- (8) **Return on Equity** is the allowed rate of return on equity as established in D.T.E. 05-27.
- (9) **X Factor** is the productivity growth index as established by the Department in D.T.E. 05-27.
- (10) **Z Factor** is the sum of the cost impacts of material Exogenous Events.

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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

**7.3 PBR Price Cap Adjustment Formula**

$$\text{PBR\_CAP}_T = (\text{GDPPI}_{T-1} - X) + \frac{(\text{Z}_{\text{REV}} + \text{ESM}_{\text{REV}})}{(\text{BASE\_REV}_{T-1} - \text{SIR\_REV}_{T-1})}$$

**and:**

$$\text{BASE\_REV}_{T-1} = \sum_{n=1}^{n=i} \sum_{e=1}^{e=j} \text{BR}_{T-1}^{n,e} \times \text{BD}^{n,e}$$

**and:**

$$\text{SIR\_REV}_{T-1} = \sum_{n=1}^{n=i} \sum_{e=1}^{e=j} \text{BR\_SIR}_{T-1}^{n,e} \times \text{BD}^{n,e}$$

**and:**

$$X = \text{TFPT}_{\text{GDI-US}} + \text{IPT}_{\text{GDI-US}} + \text{CD}$$

**Where:**

$\text{PBR\_CAP}_T$      The percentage change in the Average Unit Price for all Rate Schedules pursuant to Bay State's PBR Program.



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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

$GDPPI_{T-1}$	The average annual percentage change in the United States Gross Domestic Product Price Inflation for the four most recent quarterly reporting periods as of the second quarter of the Calendar Year as published by the United States Department of Commerce.
$X$	The productivity or X Factor, which shall be the sum of the Productivity Trend differential, Input Price Trend differential, and the Consumer Dividend, as established by the Department in D.T.E. 05-27.
$Z_{REV}$	The sum of cost impacts of all Exogenous Events, positive or negative, as provided for in Section 7.5.
$ESM_{REV}$	The earnings to be shared with customers under the mechanism specified in Section 7.7.
$BASE\_REV_{T-1}^{n,i}$	The base revenues calculated by multiplying each Base Rate Element shown in Column (B) of the Currently Effective Rate Adjustment Table in Section 10 for each Company Rate Schedule, by the corresponding weather-normalized billing determinants for the most recent Calendar Year.
$SIR\_REV_{T-1}$	The SIR Revenues calculated by multiplying each SIR Base Rate shown in Column (C) of the Currently Effective Rate Adjustment Table in Section 10 for each Company Rate Schedule by the corresponding weather-normalized billing determinants for the most recent Calendar Year.
$I$	The total number of firm Rate Schedules to which the ABRAM is applicable.
$J$	The total number of Base Rate Elements for Rate Schedule $n$ .
$BR_{T-1}^{n,e}$	The Base Rate Element $e$ shown in Column (B) of the Currently Effective Rate Adjustment Table for Rate Schedule $n$ .

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### **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

$BD^{n,e}$	The most recent Calendar Year weather-normalized billing determinants corresponding to Base Rate Element $e$ applicable to Rate Schedule $n$ .
$BR\_SIR^{n,e}_{T-1}$	The SIR Base Rate $e$ shown in Column (C) of the Currently Effective Rate Adjustment Table for Rate Schedule $n$ .
$TPT_{GDI-US}$	The total Productivity Trend differential between the gas distribution industry in the Northeast and the overall United States economy as approved by the Department in D.T.E. 05-27.
$IPT_{GDI-US}$	The total Input Price Trend differential between the gas distribution industry in the Northeast and the overall United States economy, as approved by the Department in D.T.E. 05-27.
CD	The Consumer Dividend, as approved by the Department in D.T.E. 05-27.

#### **7.4 PBR Annual Rate Adjustment**

The Company may apply a non-uniform percentage change to each Base Rate Element of each firm Rate Schedule so long as the change in the Average Unit Price for the Customer Class is equal to the PBR Price Cap Adjustment. For purposes of calculating the Average Unit Price, the Company shall employ the weather-normalized billing determinants for the previous Calendar Year. The maximum percentage change to any individual Base Rate Element pursuant to the PBR mechanism shall be sum of the PBR Price Cap Adjustment and the X Factor.

#### **7.5 Exogenous Events**

The costs and/or cost reductions associated with unforeseen Exogenous Events that are beyond Bay State's control that occurred during the most recent Calendar Year and that

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

are not reflected in the elements of the PBR price cap formula may be included in the PBR mechanism through the Z Factor. Examples of Exogenous Events are changes in tax laws that uniquely affect the local gas distribution industry, changes in accounting rules that uniquely affect the local gas distribution industry, and regulatory, legislative or judicial actions that uniquely affect the local gas distribution industry. Only material Exogenous Events, i.e. with cost impacts in excess of \$600,000 positive or negative, shall be reflected in the Z Factor. The eligibility of the cost impacts of Exogenous Events for inclusion in the Z Factor shall be reviewed by the Department.

### **7.6 Revenue Exclusions**

Base Rate revenue requirement items that are recovered through separate tracking mechanisms shall be excluded from the price indexing formula. The Company's SIR program costs described in Section 8 and Pension and Benefit Costs recovered through the Local Distribution Adjustment Clause shall be excluded from the PBR program.

### **7.7 Earnings Sharing**

An Earnings Sharing component of the PBR program provides the Company and its Customers with protections in the event that the productivities achieved under the proposed program deviate materially from those anticipated and reflected in the PBR Price Cap Formula. In the event that the Company's actual Return on Equity for any annual period beginning January 1<sup>st</sup> of the years 2006 through the term of the PBR program is outside of the Earnings Sharing Bandwidth, the difference between actual earnings and earnings calculated at the authorized Return on Equity shall be shared 75% to the Company and 25% to Customers. There shall be no earnings sharing when the Company's actual Return on Equity falls within the Earnings Sharing Bandwidth. The Company's net income and year-ending common equity balances as reported in its annual report to the Department shall be used to calculate the level of earnings sharing.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 7.8 Information to be Filed with the Department

On or before June 1<sup>st</sup> of each year, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the PBR Base Rate Adjustment to be included in the ABRAM for the subsequent Rate Year. Such information shall include the results of the calculation of the PBR Price Cap Adjustment Formula, descriptions and accounting of any Exogenous Events, and an earnings sharing calculation.

### 8.0 Calculation of SIR Base Rate Adjustment

#### 8.1 Description of SIR Program

The Company's SIR program provides for the accelerated replacement of aging steel infrastructure in order to maintain safe and reliable service. The costs associated with the program less any operations and maintenance ("O&M") expense savings are recovered through the ABRAM.

#### 8.2 Definitions

- (1) Accelerated Gross Plant Investments are the capitalized cost of SIR plant investments including applicable overhead recorded on the Company's books that exceed the Non-Accelerated Investment Threshold.
- (2) Accumulated Deferred Income Taxes is the net reduction in Federal income and State franchise taxes associated with the use of accelerated depreciation allowed for income tax purposes.

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### ANNUAL BASE RATE ADJUSTMENT MECHANISM

- (3) **Accumulated Reserve for Depreciation** is the net credit balance arising from the provision for Depreciation.
- (4) **Carrying Costs** are the costs incurred by the Company to finance investments in Eligible Facilities prior to inclusion in the SIR Base Rate Adjustment mechanism
- (5) **Depreciation Expense** is the return of the Company's investment in Rate Base at established annual rates as approved by the Department in D.T.E. 05-27.
- (6) **Eligible Facilities** are those facilities in connection with the projects undertaken by the Company to replace bare and unprotected coated steel distribution mains on an accelerated basis.
- (7) **Non-Accelerated Investment Threshold** is the typical annual level of steel infrastructure replacement investment as established by the Department in D.T.E. 05-27.
- (8) **Rate Base** is the investment value upon which Bay State is permitted to earn its authorized rate of return.
- (9) **Property Tax Rate** is the composite property tax rate paid by the Company calculated in its most recent base rate proceeding as the ratio of total annual property taxes paid to total net plant in service.
- (10) **SIR Savings** are the O&M expense savings realized by the Company attributable to the facilities installed under the SIR Program.

### 8.3 **SIR Investments**

SIR Investments are the costs of Eligible Facilities and shall include the costs of main replacement projects including any connected facilities such as services, meters or

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

regulators that must be installed or replaced to enable the main replacement to become operational. SIR Investments may include investments in one or more of the following plant accounts:

- (1) Account No. 367, Transmission Mains
- (2) Account No. 376, Distribution Mains
- (3) Account No. 380, Distribution Services
- (4) Account No. 381, Meters
- (5) Account No. 382, Meter Installations
- (6) Account No. 383, House Regulators
- (7) Account No. 385, Industrial Measuring and Regulating Equipment

### **8.4 Eligible SIR Revenue Requirements**

Eligible SIR Revenue Requirements shall include depreciation, property taxes, return and associated income taxes associated with total SIR Investments made since the initiation of the SIR program. Carrying Costs on SIR Investments from the time each investment is placed into service until recovery begins shall also be considered Eligible SIR Revenue Requirements.

### **8.5 Eligible SIR Savings**

Eligible SIR Savings shall be the lower O&M expense associated with reduced leak repair activity and shall be reflected as an offset to SIR Revenues. Eligible SIR Savings shall be calculated based on the reduction in the number of leak repairs and the associated avoided cost of leak repairs.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 8.6 SIR Revenue Requirements Formula

$$\text{SIR\_REV}_T = (\text{RB}_{\text{SIR}} \times \text{PTRR}) + \text{DEPR}_{\text{SIR}} + \text{PTMS}_{\text{SIR}} + \text{CC}_{\text{SIR}} - \text{SAV}_{\text{SIR}}$$

and:

$$\text{RB}_{\text{SIR}} = \text{AGP}_{\text{SIR}} - \text{ARD}_{\text{SIR}} - \text{ADIT}_{\text{SIR}}$$

#### Where:

$\text{SIR\_REV}_T$	The SIR Revenue Requirements for the Rate Year.
$\text{RB}_{\text{SIR}}$	The Rate Base associated with the SIR Program as of the end of the Calendar Year preceding the Rate Year.
$\text{PTRR}$	The pre-tax rate of return as established by the Department in D.T.E. 05-27.
$\text{DEPR}_{\text{SIR}}$	The depreciation expense associated with the plant investment in the SIR Program.
$\text{PTMS}_{\text{SIR}}$	The property taxes calculated based on the net plant investment in mains and services associated with the SIR Program multiplied by the Property Tax Rate.
$\text{CC}_{\text{SIR}}$	Carrying Costs calculated monthly as the product of the Company's pre-tax rate of return multiplied by the Accelerated Gross Plant Investments associated with SIR Program plant placed in service, but not yet recovered through rates.
$\text{SAV}_{\text{SIR}}$	The total Eligible SIR Savings associated with reduced leak repair activity

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### **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

AGP <sub>SIR</sub>	The Accelerated Gross Plant Investments associated with the SIR Program as of the end of the Calendar Year preceding the Rate Year.
ARD <sub>SIR</sub>	The Accumulated Reserve for Depreciation associated with the SIR Investments as of the end of the Calendar Year preceding the Rate Year.
ADIT <sub>SIR</sub>	The Accumulated Deferred Income Taxes associated with the SIR Investments as of the end of the Calendar Year preceding the Rate Year.

#### **8.7 SIR Base Rate Adjustment**

The SIR Revenue Requirements shall be recovered from Customers through each Base Rate Element of the Company's firm Rate Schedules by applying a SIR Base Rate Adjustment to each existing Base Rate Element excluding the SIR Base Rate for the Prior Year. The SIR Base Rate Adjustments shall be derived by allocating the overall SIR Revenue Requirements to each Base Rate Element by the percentage of Prior Year total base revenues associated with each Base Rate Element. The resulting revenues by each Base Rate Element are then divided by the corresponding weather-normalized billing determinants for the Prior Year to derive the SIR Base Rate Adjustment.

#### **8.8 Annual SIR Budget**

In conjunction with its annual ABRAM filing each year, the Company shall provide the Department with a description of the SIR projects that it expects to complete during the current construction cycle and to include in the SIR Base Rate Adjustment for the following year. In addition, the Company will estimate the gross plant investment associated with each project. The list of projects and associated cost estimates shall be



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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

based on information available to the Company at the time it prepares the Annual SIR Budget and shall be provided for informational purposes. The specific projects undertaken during the current construction cycle and the associated cost of each project may vary due to circumstances and information that are not known by the Company at the time that the Annual SIR Budget was prepared.

### **8.9 Information to be Filed with the Department**

On or before June 1<sup>st</sup> of each year, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the SIR Revenue Requirements and the SIR Base Rates to be included in the ABRAM for the subsequent Rate Period. Such information shall include descriptions of all SIR Investments and the results of the calculation of the SIR Revenue Requirements Formula for the Rate Year. The Company shall also describe any factors that affected changes to the list of projects undertaken from those identified to the Department in the Company's Annual SIR Budget filed the previous year as well as any material variances in the project costs.

### **9.0 Information Required to be Filed with the Department**

Information pertaining to all of the components of the Annual Base Rate Adjustment Mechanism is to be filed with the Department as specified in Sections 7 and 8. In addition, the Company shall file revised tariff sheets reflecting the impact of applying the base rate changes provided for herein.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 10.0 Currently Effective Rate Adjustment Table

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates			
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	SIR Base Rate	TOTAL Base Rate
	Note 1/ (B)	Note 2/ (C)	(B) – (C) (D)	Note 3/ (E)	(1+E) * (D) (F)	Note 4/ (G)	(F) + (G) (H)
<b>R-1</b>							
Customer Charge	\$11.60	TBD	\$11.60	TBD	TBD	\$0.00	\$11.60
Peak 0-12 therms	0.2393	TBD	0.2393	TBD	TBD	0.0000	0.2393
Peak 12+ therms	0.1928	TBD	0.1928	TBD	TBD	0.0000	0.1928
Off-Peak 0-10 therms	0.2393	TBD	0.2393	TBD	TBD	0.0000	0.2393
Off-Peak 10+ therms	0.1928	TBD	0.1928	TBD	TBD	0.0000	0.1928
<b>R-2</b>							
Customer Charge	\$6.25	TBD	\$6.25	TBD	TBD	\$0.00	\$6.25
Peak	0.1158	TBD	0.1158	TBD	TBD	0.0000	0.1158
Off-Peak	0.1158	TBD	0.1158	TBD	TBD	0.0000	0.1158
<b>R-3</b>							
Customer Charge	\$12.10	TBD	\$12.10	TBD	TBD	\$0.00	\$12.10
Peak 0-125 therms	0.3183	TBD	0.3183	TBD	TBD	0.0000	0.3183
Peak 90+ therms	0.2224	TBD	0.2224	TBD	TBD	0.0000	0.2224
Off-Peak 0-125 therms	0.3183	TBD	0.3183	TBD	TBD	0.0000	0.3183
Off-Peak 30+ therms	0.2224	TBD	0.2224	TBD	TBD	0.0000	0.2224
<b>R-4</b>							
Customer Charge	\$6.25	TBD	\$6.25	TBD	TBD	\$0.00	\$6.25
Peak	0.0708	TBD	0.0708	TBD	TBD	0.0000	0.0708
Off-Peak	0.0708	TBD	0.0708	TBD	TBD	0.0000	0.0708
<b>OL</b>							
Per Light per Month	\$2.58	TBD	\$2.58	TBD	TBD	\$0.00	\$2.58
<b>G-40</b>							
Customer Charge	\$19.00	TBD	\$19.00	TBD	TBD	\$0.00	\$19.00

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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates			
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	SIR Base Rate	TOTAL Base Rate
	Note 1/ (B)	Note 2/ (C)	(B) - (C) (D)	Note 3/ (E)	(1+E) * (D) (F)	Note 4/ (G)	(F) + (G) (H)
Peak	0.3090	TBD	0.3090	TBD	TBD	0.0000	0.3090
Off-Peak	0.3090	TBD	0.3090	TBD	TBD	0.0000	0.3090

<b>G-50</b>							
Customer Charge	\$19.00	TBD	\$19.00	TBD	TBD	\$0.00	\$19.00
Peak	0.2818	TBD	0.2818	TBD	TBD	0.0000	0.2818
Off-Peak	0.2818	TBD	0.2818	TBD	TBD	0.0000	0.2818
<b>G-41</b>							
Customer Charge	\$65.00	TBD	\$65.00	TBD	TBD	\$0.00	\$65.00
Peak	0.1920	TBD	0.1920	TBD	TBD	0.0000	0.1920
Off-Peak	0.1216	TBD	0.1216	TBD	TBD	0.0000	0.1216
<b>G-51</b>							
Customer Charge	\$65.00	TBD	\$65.00	TBD	TBD	\$0.00	\$65.00
Peak	0.1774	TBD	0.1774	TBD	TBD	0.0000	0.1774
Off-Peak	0.0826	TBD	0.0826	TBD	TBD	0.0000	0.0826
<b>G-42</b>							
Customer Charge	\$213.00	TBD	\$213.00	TBD	TBD	\$0.00	\$213.00
Peak	0.1794	TBD	0.1794	TBD	TBD	0.0000	0.1794
Off-Peak	0.0778	TBD	0.0778	TBD	TBD	0.0000	0.0778
<b>G-52</b>							
Customer Charge	\$213.00	TBD	\$213.00	TBD	TBD	\$0.00	\$213.00
Peak	0.1682	TBD	0.1682	TBD	TBD	0.0000	0.1682
Off-Peak	0.0657	TBD	0.0657	TBD	TBD	0.0000	0.0657
<b>G-43</b>							
Customer Charge	\$781.00	TBD	\$781.00	TBD	TBD	\$0.00	\$781.00

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Effective: June 1, 2005

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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates			
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	SIR Base Rate	TOTAL Base Rate
	Note 1/ (B)	Note 2/ (C)	(B) – (C) (D)	Note 3/ (E)	(1+E) * (D) (F)	Note 4/ (G)	(F) + (G) (H)
Peak	0.0507	TBD	0.0507	TBD	TBD	0.0000	0.0507
Off-Peak	0.0193	TBD	0.0193	TBD	TBD	0.0000	0.0193
Peak Demand	2.1586	TBD	2.1586	TBD	TBD	0.0000	2.1586
Off-Peak Demand	0.6713	TBD	0.6713	TBD	TBD	0.0000	0.6713

<b>G-53</b>							
Customer Charge	\$781.00	TBD		TBD	TBD	\$0.00	\$781.00
Peak	0.0507	TBD		TBD	TBD	0.0000	0.0507
Off-Peak	0.0193	TBD		TBD	TBD	0.0000	0.0193
Peak Demand	2.1586	TBD	2.1586	TBD	TBD	0.0000	2.1586
Off-Peak Demand	0.6713	TBD	0.6713	TBD	TBD	0.0000	0.6713

Notes: 1/ From Column (H) of the previous year's Annual Base Rate Adjustment Filing Rate Table.  
2/ From Column (G) of the previous year's Annual Base Rate Adjustment Filing .  
3/ Calculated in accordance with Section 7.4.  
4/ Calculated in accordance with Section 8.7.  
TBD – To be determined initially in the Company's first Annual Base Adjustment Mechanism filing.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### Section

- 1.0 Purpose
- 2.0 Effective Date
- 3.0 Applicability
- 4.0 Definitions
- 5.0 Annual Base Rate Adjustment Formula
- 6.0 Determination of Initial Base Rates
- 7.0 Calculation of PBR Annual Rate Adjustment
- ~~8.0 Calculation of Energy Efficiency Adjustment Factor~~
- 9.0 Calculation of SIR Base Rate Adjustment
- ~~10.0 Reporting Requirements~~
- ~~11.0 Currently Effective Rate Adjustment Table~~

### 1.0 Purpose

The purpose of the Annual Base Rate Adjustment Mechanism ("ABRAM") is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on an annual basis, its base rates for firm gas sales and firm transportation service pursuant to the Company's Performance Based Rate ("PBR") and Steel Infrastructure Replacement ("SIR") programs ~~and to reflect the annualized impact of energy efficiency savings ("EES").~~ The PBR program encompasses a price cap rate indexing mechanism, as well as earnings sharing above and below established thresholds and recovery of exogenous costs. The SIR program provides for base rate adjustments that allow Bay State to recover the costs associated with accelerated replacement of bare and unprotected coated steel distribution mains and other Eligible Facilities. ~~EES are the therm savings attributable to the installation of demand-side management ("DSM") measures pursuant to the Company's DSM programs as approved by the Department from time-~~

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

to-time.

### **2.0 Effective Date**

The ABRAM shall be effective June 1, 2005 and shall continue subject to the terms of the PBR and SIR mechanisms set forth below. The initial rates established in accordance with Section 6.0 shall remain in effect until October 31, 2006. Subsequent base rate adjustments shall occur so long as either the PBR or SIR mechanisms remain effective or EES continue to be realized. In the event that both the PBR and SIR mechanisms are terminated and EES are no longer realized, the Company's base rates, as adjusted pursuant to the ABRAM, shall remain in effect until modified by the Department pursuant to a subsequent base rate proceeding.

#### **2.1 Term of PBR Base Rate Adjustment Mechanism**

The PBR Base Rate Adjustment mechanism shall continue for a term of five years through October 31, 2010. No further adjustment to the PBR component of the ABRAM shall occur after the completion of the five-year term ending October 31, 2010.

#### **2.2 Term of SIR Base Rate Adjustment Mechanism**

The SIR Base Rate Adjustment mechanism shall remain in effect until the Company's base rates are modified by the Department pursuant to a subsequent base rate proceeding.

### **3.0 Applicability**

This mechanism shall apply an adjustment to the base rates of each of the Company's firm sales and firm transportation Rate Schedules, subject to the jurisdiction of the Department, as

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

determined in accordance with the provisions of this mechanism. Such ABRAM shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this mechanism.

### 4.0 Definitions

The following definitions shall apply throughout the provisions of the ABRAM tariff.

- (1) **Base Rate Element** is any customer, volumetric or demand charge reflected in the Company's Rate Schedules that recovers a portion of the Company's base revenue requirement as established by the Department in its most recent base rate case.
- (2) **Base Rates** are the compilation of Base Rate Elements for all of the Company's Rate Schedules
- (3) **Calendar Year** is the annual period beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>.
- (4) **Customer Class** is the group of customers all taking service pursuant to the same Rate Schedule.
- ~~(5) **Energy Efficiency Savings** shall be the annualized therm savings attributable to energy efficiency measures installed during the Calendar Year.~~
- (65) **Off-peak Period** is the continuous period from May 1<sup>st</sup> through October 31<sup>st</sup>.
- (76) **PBR Adjusted Base Rate** is the base rate in effect for the Prior Year plus the rate change calculated through the application of the PBR Price Cap Formula to the base rates in effect for the Prior Year.
- (87) **PBR Price Cap Formula** is the mathematical expression set forth in Section 7.3 used to calculate the percentage change in Base Rates for the Rate Year.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

- (98) **Peak Period** is the continuous period from November 1<sup>st</sup> through April 30<sup>th</sup>.
- (109) **Prior Year** is the annual period ending immediately prior to the Rate Year.
- )
- (101) **Rate Year** is the annual period that the adjusted base rates shall be effective beginning on November 1<sup>st</sup>.
- )
- (112) **SIR Revenue Requirements** are the revenue requirements for the Company's SIR program for the Rate Year.
- )
- (123) **SIR Base Rate** is the total component of the Company's Base Rates that recovers the aggregate SIR Revenue Requirements for investments made over the duration of the SIR Program.

### 5.0 Annual Base Rate Adjustment Formula

The annual base rate adjustment formula shall be applied for each Base Rate Element of each Rate Schedule and shall be calculated in accordance with the following formula:

$$BR_T^{n,e} = (BR_{T-1}^{n,e} - BR\_SIR_{T-1}^{n,e}) \times (1 + PBR\_CAP_T^{n,e}) \times (1 + EE\_ADJ_T^{n,e}) + BR\_SIR_T^{n,e}$$

Where:

$BR_T^{n,e}$  The Base Rate Element  $e$  applicable to Rate Schedule  $n$  for the Rate Year

$BR_{T-1}^{n,e}$  The Base Rate Element  $e$  applicable to Rate Schedule  $n$  for the Prior Year

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

$BR\_SIR_{T-1}^{n,e}$	The SIR Base Rate for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Prior Year
$PBR\_CAP_T^{n,e}$	The percentage change for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Rate Year calculated pursuant to the Company's PBR Program.
$EE\_ADJ_T^{n,e}$	The Energy Efficiency Adjustment Percentage for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Rate Year
$BR\_SIR_T^{n,e}$	The SIR Base Rate for Base Rate Element $e$ applicable to Rate Schedule $n$ for the Rate Year

### 6.0 Determination of Initial Base Rates

The initial base rates shall be those established by the Department in Docket No. D.T.E. 05-27. The initial base rates shall be set forth in Column (H) of the Currently Effective Rate Adjustment Table contained in Section 10.0 to be effective through October 31, 2006. The first ABRAM change to the initial base rates shall be effective November 1, 2006.

### 7.0 Calculation of PBR Annual Rate Adjustment

#### 7.1 Description of PBR Program

The Company's PBR program replaces traditional cost of service ratemaking with an incentive-based mechanism. The PBR program includes price cap, earnings sharing and exogenous components. The price cap component limits the change in base rates to the rate of input price inflation representative of the gas distribution industry less offsets for productivity and a consumer dividend. The earnings sharing component provides for

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

sharing of earnings that are outside symmetrical bands above and below Bay State's authorized Return on Equity. The exogenous cost component allows the Company to reflect costs or credits in the PBR mechanism that derive from unanticipated events that are beyond Bay State's direct control.

### 7.2 Definitions

- (1) **Average Unit Price** shall be the price per therm calculated by dividing the total base revenues for the Customer Class for the Prior Year by the normalized annual throughput for the class for the Prior Year.
- (2) **Basis Point** shall be one one-hundredth of a percentage point.
- (3) **Consumer Dividend** is the benefit to consumers of future productivity gains attributable to performance-based ratemaking for Bay State's services as established by the Department in D.T.E. 05-27.
- (4) **Earnings Sharing Bandwidth** is the percentage range equal to 400 Basis Points below the percentage Return on Equity authorized by the Department to 400 Basis Points above the percentage Return on Equity authorized by the Department.
- (5) **Exogenous Events** are occurrences that have a material and disproportionate impact on Bay State that are beyond the Company's control and are not otherwise reflected in the PBR formula.
- (6) **Input Price Trend** is the measure of change in the prices for all inputs used to provide regulated gas distribution services.
- (7) **Productivity Trend** is the measure of change in productivity associated with providing regulated gas distribution services.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

- (8) **Return on Equity** is the allowed rate of return on equity as established in D.T.E. 05-27.
- (9) **X Factor** is the productivity growth index as established by the Department in D.T.E. 05-27.
- (10) **Z Factor** is the sum of the cost impacts of material Exogenous Events.

7.3 **PBR Price Cap Adjustment Formula**

$$\text{PBR\_CAP}_T = (\text{GDPPI}_{T-1} - X) + \frac{(\text{Z}_{\text{REV}} + \text{ESM}_{\text{REV}})}{(\text{BASE\_REV}_{T-1} - \text{SIR\_REV}_{T-1})}$$

and:

$$\text{BASE\_REV}_{T-1} = \sum_{n=1}^{n=i} \sum_{e=1}^{e=j} \text{BR}_{T-1}^{n,e} \times \text{BD}^{n,e}$$

and:

$$\text{SIR\_REV}_{T-1} = \sum_{n=1}^{n=i} \sum_{e=1}^{e=j} \text{BR\_SIR}_{T-1}^{n,e} \times \text{BD}^{n,e}$$

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Page 8 of ~~21~~1919**ANNUAL BASE RATE ADJUSTMENT MECHANISM****and:**

$$X = \text{TFPT}_{\text{GDI-US}} + \text{IPT}_{\text{GDI-US}} + \text{CD}$$

**Where:**

$\text{PBR\_CAP}_T$  The percentage change in the Average Unit Price for all Rate Schedules pursuant to Bay State's PBR Program.

$\text{GDPPI}_{T-1}$  The average annual percentage change in the United States Gross Domestic Product Price Inflation for the four most recent quarterly reporting periods as of the second quarter of the Calendar Year as published by the United States Department of Commerce.

$X$  The productivity or X Factor, which shall be the sum of the Productivity Trend differential, Input Price Trend differential, and the Consumer Dividend, as established by the Department in D.T.E. 05-27.

$Z_{\text{REV}}$  The sum of cost impacts of all Exogenous Events, positive or negative, as provided for in Section 7.5.

$\text{ESM}_{\text{REV}}$  The earnings to be shared with customers under the mechanism specified in Section 7.7.

$\text{BASE\_REV}_{T-1}$  The base revenues calculated by multiplying each Base Rate Element shown in Column (B) of the Currently Effective Rate Adjustment Table in Section ~~44~~10 for each Company Rate Schedule, by the corresponding weather-normalized billing determinants for the most recent Calendar Year.

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### **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

$SIR\_REV_{T-1}$	The SIR Revenues calculated by multiplying each SIR Base Rate shown in Column (C) of the Currently Effective Rate Adjustment Table in Section <del>11-10</del> for each Company Rate Schedule by the corresponding weather-normalized billing determinants for the most recent Calendar Year.
$I$	The total number of firm Rate Schedules to which the ABRAM is applicable.
$J$	The total number of Base Rate Elements for Rate Schedule $n$ .
$BR_{T-1}^{n,e}$	The Base Rate Element $e$ shown in Column (B) of the Currently Effective Rate Adjustment Table for Rate Schedule $n$ .
$BD^{n,e}$	The most recent Calendar Year weather-normalized billing determinants corresponding to Base Rate Element $e$ applicable to Rate Schedule $n$ .
$BR\_SIR_{T-1}^{n,e}$	The SIR Base Rate $e$ shown in Column (C) of the Currently Effective Rate Adjustment Table for Rate Schedule $n$ .
$TPT_{GDI-US}$	The total Productivity Trend differential between the gas distribution industry in the Northeast and the overall United States economy as approved by the Department in D.T.E. 05-27.
$IPT_{GDI-US}$	The total Input Price Trend differential between the gas distribution industry in the Northeast and the overall United States economy, as approved by the Department in D.T.E. 05-27.
$CD$	The Consumer Dividend, as approved by the Department in D.T.E. 05-27.

#### **7.4 PBR Annual Rate Adjustment**

The Company may apply a non-uniform percentage change to each Base Rate Element of

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

each firm Rate Schedule so long as the change in the Average Unit Price for the Customer Class is equal to the PBR Price Cap Adjustment. For purposes of calculating the Average Unit Price, the Company shall employ the weather-normalized billing determinants for the previous Calendar Year. The maximum percentage change to any individual Base Rate Element pursuant to the PBR mechanism shall be sum of the PBR Price Cap Adjustment and the X Factor.

### **7.5 Exogenous Events**

The costs and/or cost reductions associated with unforeseen Exogenous Events that are beyond Bay State's control that occurred during the most recent Calendar Year and that are not reflected in the elements of the PBR price cap formula may be included in the PBR mechanism through the Z Factor. Examples of Exogenous Events are changes in tax laws that uniquely affect the local gas distribution industry, changes in accounting rules that uniquely affect the local gas distribution industry, and regulatory, legislative or judicial actions that uniquely affect the local gas distribution industry. Only material Exogenous Events, i.e. with cost impacts in excess of \$600,000 positive or negative, shall be reflected in the Z Factor. The eligibility of the cost impacts of Exogenous Events for inclusion in the Z Factor shall be reviewed by the Department.

### **7.6 Revenue Exclusions**

Base Rate revenue requirement items that are recovered through separate tracking mechanisms shall be excluded from the price indexing formula. The Company's SIR program costs described in Section 9-8 and Pension and Benefit Costs recovered through the Local Distribution Adjustment Clause shall be excluded from the PBR program.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 7.7 Earnings Sharing

An Earnings Sharing component of the PBR program provides the Company and its Customers with protections in the event that the productivities achieved under the proposed program deviate materially from those anticipated and reflected in the PBR Price Cap Formula. In the event that the Company's actual Return on Equity for any annual period beginning January 1<sup>st</sup> of the years 2006 through the term of the PBR program is outside of the Earnings Sharing Bandwidth, the difference between actual earnings and earnings calculated at the authorized Return on Equity shall be shared 75% to the Company and 25% to Customers. There shall be no earnings sharing when the Company's actual Return on Equity falls within the Earnings Sharing Bandwidth. The Company's net income and year-ending common equity balances as reported in its annual report to the Department shall be used to calculate the level of earnings sharing.

### 7.8 Information to be Filed with the Department

On or before June 1<sup>st</sup> of each year, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the PBR Base Rate Adjustment to be included in the ABRAM for the subsequent Rate Year. Such information shall include the results of the calculation of the PBR Price Cap Adjustment Formula, descriptions and accounting of any Exogenous Events, and an earnings sharing calculation.

## 8.0 Calculation of Energy Efficiency Adjustment Factor

### 8.1 Applicability

~~The volumetric rates for firm Customer Classes that participate in the Company's energy~~

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efficiency programs shall be further adjusted to reflect the annualized impact of energy efficiency programs on the therm gas use of firm Customer Classes for the previous Calendar Year. The adjustment shall be calculated on a percentage basis for each Base Rate Element.

### 8.2 Determination of Energy Efficiency Savings

The Company shall calculate the therm gas use impact of the energy efficiency measures installed during the previous Calendar Year. The therm savings shall be annualized to reflect a full year's impact. The annualized therm savings shall be broken down by Customer Class and further disaggregated by Peak Period and Off peak Period and by head and tail block, where applicable.

### 8.3 Energy Efficiency Adjustment Factor Formula

$$EE\_ADJ_T^{n,e} = \frac{BD^{n,e}}{BD^{n,e} - EE^{n,e}} - 1$$

Where:

$EE\_ADJ_T^{n,e}$  The Energy Efficiency Adjustment Percentage for Base Rate Element  $e$  applicable to Rate Schedule  $n$  for the Rate Year

$BD^{n,e}$  The most recent Calendar Year weather-normalized billing determinants corresponding to Base Rate Element  $e$  applicable to Rate Schedule  $n$ .



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~~EE<sup>n,e</sup>~~ The annualized Energy Efficiency savings for the most recent Calendar Year associated with Base Rate Element ~~e~~ applicable to Rate Schedule ~~n~~.

### ~~8.4~~ Information to be Filed with the Department

~~On or before June 1<sup>st</sup> of each year, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the Energy Efficiency Adjustment to be included in the ABRAM for the subsequent Rate Year. Such information shall include a description of the energy efficiency measures installed and associated therm savings by Rate Schedule.~~

## 98.0 Calculation of SIR Base Rate Adjustment

### 98.1 Description of SIR Program

The Company's SIR program provides for the accelerated replacement of aging steel infrastructure in order to maintain safe and reliable service. The costs associated with the program less any operations and maintenance ("O&M") expense savings are recovered through the ABRAM.

### 98.2 Definitions

- (1) Accelerated Gross Plant Investments are the capitalized cost of SIR plant investments including applicable overhead recorded on the Company's books that exceed the Non-Accelerated Investment Threshold.

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### ANNUAL BASE RATE ADJUSTMENT MECHANISM

- (2) **Accumulated Deferred Income Taxes** is the net reduction in Federal income and State franchise taxes associated with the use of accelerated depreciation allowed for income tax purposes.
- (3) **Accumulated Reserve for Depreciation** is the net credit balance arising from the provision for Depreciation.
- (4) **Carrying Costs** are the costs incurred by the Company to finance investments in Eligible Facilities prior to inclusion in the SIR Base Rate Adjustment mechanism
- (5) **Depreciation Expense** is the return of the Company's investment in Rate Base at established annual rates as approved by the Department in D.T.E. 05-27.
- (6) **Eligible Facilities** are those facilities in connection with the projects undertaken by the Company to replace bare and unprotected coated steel distribution mains on an accelerated basis.
- (7) **Non-Accelerated Investment Threshold** is the typical annual level of steel infrastructure replacement investment as established by the Department in D.T.E. 05-27.
- (8) **Rate Base** is the investment value upon which Bay State is permitted to earn its authorized rate of return.
- (9) **Property Tax Rate** is the composite property tax rate paid by the Company calculated in its most recent base rate proceeding as the ratio of total annual property taxes paid to total net plant in service.
- (10) **SIR Savings** are the O&M expense savings realized by the Company attributable to the facilities installed under the SIR Program.

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

### **98.3 SIR Investments**

SIR Investments are the costs of Eligible Facilities and shall include the costs of main replacement projects including any connected facilities such as services, meters or regulators that must be installed or replaced to enable the main replacement to become operational. SIR Investments may include investments in one or more of the following plant accounts:

- (1) Account No. 367, Transmission Mains
- (2) Account No. 376, Distribution Mains
- (3) Account No. 380, Distribution Services
- (4) Account No. 381, Meters
- (5) Account No. 382, Meter Installations
- (6) Account No. 383, House Regulators
- (7) Account No. 385, Industrial Measuring and Regulating Equipment

### **98.4 Eligible SIR Revenue Requirements**

Eligible SIR Revenue Requirements shall include depreciation, property taxes, return and associated income taxes associated with total SIR Investments made since the initiation of the SIR program. Carrying Costs on SIR Investments from the time each investment is placed into service until recovery begins shall also be considered Eligible SIR Revenue Requirements.

### **98.5 Eligible SIR Savings**

Eligible SIR Savings shall be the lower O&M expense associated with reduced leak repair activity and shall be reflected as an offset to SIR Revenues. Eligible SIR Savings shall be calculated based on the reduction in the number of leak repairs and the associated

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avoided cost of leak repairs.

**98.6 SIR Revenue Requirements Formula**

$$\text{SIR\_REV}_T = (\text{RB}_{\text{SIR}} \times \text{PTRR}) + \text{DEPR}_{\text{SIR}} + \text{PTMS}_{\text{SIR}} + \text{CC}_{\text{SIR}} - \text{SAV}_{\text{SIR}}$$

**and:**

$$\text{RB}_{\text{SIR}} = \text{AGP}_{\text{SIR}} - \text{ARD}_{\text{SIR}} - \text{ADIT}_{\text{SIR}}$$

**Where:**

$\text{SIR\_REV}_T$	The SIR Revenue Requirements for the Rate Year.
$\text{RB}_{\text{SIR}}$	The Rate Base associated with the SIR Program as of the end of the Calendar Year preceding the Rate Year.
$\text{PTRR}$	The pre-tax rate of return as established by the Department in D.T.E. 05-27.
$\text{DEPR}_{\text{SIR}}$	The depreciation expense associated with the plant investment in the SIR Program.
$\text{PTMS}_{\text{SIR}}$	The property taxes calculated based on the net plant investment in mains and services associated with the SIR Program multiplied by the Property Tax Rate.
$\text{CC}_{\text{SIR}}$	Carrying Costs calculated monthly as the product of the Company's pre-tax rate of return multiplied by the Accelerated Gross Plant Investments associated with SIR Program plant placed in service, but not yet recovered through rates.

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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

$SAV_{SIR}$	The total Eligible SIR Savings associated with reduced leak repair activity
$AGP_{SIR}$	The Accelerated Gross Plant Investments associated with the SIR Program as of the end of the Calendar Year preceding the Rate Year.
$ARD_{SIR}$	The Accumulated Reserve for Depreciation associated with the SIR Investments as of the end of the Calendar Year preceding the Rate Year.
$ADIT_{SIR}$	The Accumulated Deferred Income Taxes associated with the SIR Investments as of the end of the Calendar Year preceding the Rate Year.

**98.7 SIR Base Rate Adjustment**

The SIR Revenue Requirements shall be recovered from Customers through each Base Rate Element of the Company's firm Rate Schedules by applying a SIR Base Rate Adjustment to each existing Base Rate Element excluding the SIR Base Rate for the Prior Year. The SIR Base Rate Adjustments shall be derived by allocating the overall SIR Revenue Requirements to each Base Rate Element by the percentage of Prior Year total base revenues associated with each Base Rate Element. The resulting revenues by each Base Rate Element are then divided by the corresponding weather-normalized billing determinants for the Prior Year to derive the SIR Base Rate Adjustment.

**98.8 Annual SIR Budget**

In conjunction with its annual ABRAM filing each year, the Company shall provide the Department with a description of the SIR projects that it expects to complete during the current construction cycle and to include in the SIR Base Rate Adjustment for the

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## **ANNUAL BASE RATE ADJUSTMENT MECHANISM**

following year. In addition, the Company will estimate the gross plant investment associated with each project. The list of projects and associated cost estimates shall be based on information available to the Company at the time it prepares the Annual SIR Budget and shall be provided for informational purposes. The specific projects undertaken during the current construction cycle and the associated cost of each project may vary due to circumstances and information that are not known by the Company at the time that the Annual SIR Budget was prepared.

### **98.9 Information to be Filed with the Department**

On or before June 1<sup>st</sup> of each year, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the SIR Revenue Requirements and the SIR Base Rates to be included in the ABRAM for the subsequent Rate Period. Such information shall include descriptions of all SIR Investments and the results of the calculation of the SIR Revenue Requirements Formula for the Rate Year. The Company shall also describe any factors that affected changes to the list of projects undertaken from those identified to the Department in the Company's Annual SIR Budget filed the previous year as well as any material variances in the project costs.

### **109.0 Information Required to be Filed with the Department**

Information pertaining to all of the components of the Annual Base Rate Adjustment Mechanism is to be filed with the Department as specified in Sections 7, ~~and 8 and 9~~. In addition, the Company shall file revised tariff sheets reflecting the impact of applying the base rate changes provided for herein.

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

### 4410.0 Currently Effective Rate Adjustment Table

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates				
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	Energy Eff. %	SIR Base Rate	TOTAL Base Rate
	Note 1/ (B)	Note 2/ (C)	(B) - (C) (D)	Note 3/ (E)	(1+E) * (D) (F)	Note 4/ (G)	Note 54/ (H)	(F) * (1+G) + (H) (I)
<b>R-1</b>								
Customer Charge	\$11.60	TBD	\$11.60	TBD	TBD	TBD	\$0.00	\$11.60
Peak 0-12 therms	0.2393	TBD	0.2393	TBD	TBD	TBD	0.0000	0.2393
Peak 12+ therms	0.1928	TBD	0.1928	TBD	TBD	TBD	0.0000	0.1928
Off-Peak 0-10 therms	0.2393	TBD	0.2393	TBD	TBD	TBD	0.0000	0.2393
Off-Peak 10+ therms	0.1928	TBD	0.1928	TBD	TBD	TBD	0.0000	0.1928
<b>R-2</b>								
Customer Charge	\$6.25	TBD	\$6.25	TBD	TBD	TBD	\$0.00	\$6.25
Peak	0.1158	TBD	0.1158	TBD	TBD	TBD	0.0000	0.1158
Off-Peak	0.1158	TBD	0.1158	TBD	TBD	TBD	0.0000	0.1158
<b>R-3</b>								
Customer Charge	\$12.10	TBD	\$12.10	TBD	TBD	TBD	\$0.00	\$12.10
Peak 0-125 therms	0.3183	TBD	0.3183	TBD	TBD	TBD	0.0000	0.3183
Peak 90+ therms	0.2224	TBD	0.2224	TBD	TBD	TBD	0.0000	0.2224
Off-Peak 0-125 therms	0.3183	TBD	0.3183	TBD	TBD	TBD	0.0000	0.3183
Off-Peak 30+ therms	0.2224	TBD	0.2224	TBD	TBD	TBD	0.0000	0.2224
<b>R-4</b>								
Customer Charge	\$6.25	TBD	\$6.25	TBD	TBD	TBD	\$0.00	\$6.25
Peak	0.0708	TBD	0.0708	TBD	TBD	TBD	0.0000	0.0708
Off-Peak	0.0708	TBD	0.0708	TBD	TBD	TBD	0.0000	0.0708
<b>OL</b>								
Per Light per Month	\$2.58	TBD	\$2.58	TBD	TBD	TBD	\$0.00	\$2.58
<b>G-40</b>								

Issued by: Stephen H. Bryant  
President

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**BAY STATE GAS COMPANY**

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**ANNUAL BASE RATE ADJUSTMENT MECHANISM**

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates				
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	Energy Eff. %	SIR Base Rate	TOTAL Base Rate
	Note 1/ (B)	Note 2/ (C)	(B) - (C) (D)	Note 3/ (E)	(1+E) * (D) (F)	Note 4/ (G)	Note 54/ (H)	(F) * (1 + G) + (H) (I)
<b>(A)</b>	<b>(B)</b>	<b>(C)</b>	<b>(D)</b>	<b>(E)</b>	<b>(F)</b>	<b>(G)</b>	<b>(H)</b>	<b>(I)</b>
Customer Charge	\$19.00	TBD	\$19.00	TBD	TBD	TBD	\$0.00	\$19.00
Peak	0.3090	TBD	0.3090	TBD	TBD	TBD	0.0000	0.3090
Off-Peak	0.3090	TBD	0.3090	TBD	TBD	TBD	0.0000	0.3090

<b>G-50</b>								
Customer Charge	\$19.00	TBD	\$19.00	TBD	TBD	TBD	\$0.00	\$19.00
Peak	0.2818	TBD	0.2818	TBD	TBD	TBD	0.0000	0.2818
Off-Peak	0.2818	TBD	0.2818	TBD	TBD	TBD	0.0000	0.2818
<b>G-41</b>								
Customer Charge	\$65.00	TBD	\$65.00	TBD	TBD	TBD	\$0.00	\$65.00
Peak	0.1920	TBD	0.1920	TBD	TBD	TBD	0.0000	0.1920
Off-Peak	0.1216	TBD	0.1216	TBD	TBD	TBD	0.0000	0.1216
<b>G-51</b>								
Customer Charge	\$65.00	TBD	\$65.00	TBD	TBD	TBD	\$0.00	\$65.00
Peak	0.1774	TBD	0.1774	TBD	TBD	TBD	0.0000	0.1774
Off-Peak	0.0826	TBD	0.0826	TBD	TBD	TBD	0.0000	0.0826
<b>G-42</b>								
Customer Charge	\$213.00	TBD	\$213.00	TBD	TBD	TBD	\$0.00	\$213.00
Peak	0.1794	TBD	0.1794	TBD	TBD	TBD	0.0000	0.1794
Off-Peak	0.0778	TBD	0.0778	TBD	TBD	TBD	0.0000	0.0778
<b>G-52</b>								
Customer Charge	\$213.00	TBD	\$213.00	TBD	TBD	TBD	\$0.00	\$213.00
Peak	0.1682	TBD	0.1682	TBD	TBD	TBD	0.0000	0.1682
Off-Peak	0.0657	TBD	0.0657	TBD	TBD	TBD	0.0000	0.0657

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## BAY STATE GAS COMPANY

M.D.T.E. No. 63

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## ANNUAL BASE RATE ADJUSTMENT MECHANISM

Customer Class And Charge	Previously Effective Rates			Currently Effective Rates				
	Base Rate	SIR Base Rate	Base Rate w/o SIR Base Rate	PBR ADJ %	PBR Adjusted Base Rate	Energy Eff. %	SIR Base Rate	TOTAL Base Rate
	Note 1/	Note 2/	(B) – (C)	Note 3/	(1+E) * (D)	Note 4/	Note 54/	(F) * (1 + G) + (HG)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(HG)	(IH)
<b>G-43</b>								
Customer Charge	\$781.00	TBD	\$781.00	TBD	TBD	TBD	\$0.00	\$781.00
Peak	0.0507	TBD	0.0507	TBD	TBD	TBD	0.0000	0.0507
Off-Peak	0.0193	TBD	0.0193	TBD	TBD	TBD	0.0000	0.0193
Peak Demand	2.1586	TBD	2.1586	TBD	TBD	TBD	0.0000	2.1586
Off-Peak Demand	0.6713	TBD	0.6713	TBD	TBD	TBD	0.0000	0.6713

<b>G-53</b>								
Customer Charge	\$781.00	TBD		TBD	TBD	TBD	\$0.00	\$781.00
Peak	0.0507	TBD		TBD	TBD	TBD	0.0000	0.0507
Off-Peak	0.0193	TBD		TBD	TBD	TBD	0.0000	0.0193
Peak Demand	2.1586	TBD	2.1586	TBD	TBD	TBD	0.0000	2.1586
Off-Peak Demand	0.6713	TBD	0.6713	TBD	TBD	TBD	0.0000	0.6713

Notes: 1/ From Column (IH) of the previous year's Annual Base Rate Adjustment Filing Rate Table.

2/ From Column (HG) of the previous year's Annual Base Rate Adjustment Filing .

3/ Calculated in accordance with Section 7.4.

4/ Calculated in accordance with Section 8.3.

54/ Calculated in accordance with Section 98.7.

TBD – To be determined initially in the Company's first Annual Base Adjustment Mechanism filing.

Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
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COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-SIXTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager, Regulatory Policy

AG-26-4      Please rewrite the Company's proposed LDAC tariff so that all capitalized terms are defined in the appropriate sections of the tariff. Include expanded definitions of the following:

a. Section 3 Interest--state the rate or source rather than reference another section. Restore the monthly reporting provisions and eliminate Section 7. Include a clean and redlined copy.

Response:      Please see Attachment AG-26-04(A) and Attachment-26-04(B) which are respective clean and redlined tariff sheets.

BAY STATE GAS COMPANY

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Cancels M.D.T.E. No. 4  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### Section

- 1.0 Purpose
- 2.0 Applicability
- 3.0 Demand Side Management Costs Allowable for Local Distribution Adjustment Clause (LDAC) -- Conservation Charge (CC)
- 4.0 Environmental Response Costs Allowable for LDAC -- (RAC)
- 5.0 Pension and PBOP Expense Allowable for LDAC -- (PEF)
- 6.0 Interruptible Transportation Margins Allowable for LDAC -- (ITM)
- 7.0 Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan
- 8.0 Exogenous Factors
- 9.0 Effective Date of Local Distribution Adjustment Factor -- (LDAF)
- 10.0 Definitions
- 11.0 Local Distribution Adjustment Factor (LDAF) Formulas
- 12.0 Application of LDAF to Bills
- 13.0 Information Required to be Filed With the Department
- 14.0 Other Rules
- 15.0 Customer Notification

### 1.0 Purpose

The purpose of this clause is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on a semi-annual basis, its rates for firm gas sales and firm transportation service in order to recover demand-side management costs, environmental response costs, return the interruptible transportation margins allocated to distribution services, , reflect changes in exogenous factors, and compensate firm rate payers for failure to meet certain service quality measures.

### 2.0 Applicability

This Local Distribution Adjustment Clause ("LDAC") shall be applicable to all of Bay State's firm sales and firm transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section 14.0, "Other Rules."

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Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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BAY STATE GAS COMPANY

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Cancels M.D.T.E. No. 4  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### 3.0 Demand Side Management Costs Allowable for LDAC

#### 3.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a semiannual basis, the Conservation Charge applicable to firm sales and firm transportation throughput in order to recover from firm ratepayers Conservation and Load Management program costs and associated expenditures.

#### 3.02 Applicability

A Conservation Charge ("CC") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 3.0 of this clause. Such CC shall be determined semiannually separately for each Rate Category as defined below.

For purposes of applying the respective CC the Company's tariff rate schedules are combined into CC Rate Categories as follows:

Residential Non-Heating	(Rates R-1, R-2, T-R1, T-R2)
Residential Heating	(Rates R-3, R-4, T-R3, T-R4)
Commercial/Industrial	(Rates G-40, G-41, G-42, G-43, G-50, G-51, G-52, G-53, T-40, T-41, T-42, T-43, T-50, T-51, T-52, T-53)

#### 3.03 Costs Allowable for LDAC

Category Conservation Expenditures associated with Demand Side Management ("DSM") or Conservation and Load Management ("C&LM") programs are included in the CC. In addition, the CC shall include the credit of Category Loan Repayments, Category Reconciliation Adjustments, and Interest as defined in Section 3.05.

#### 3.04 Effective Date of Conservation Charge

Forty-five (45) days prior to the first day of the beginning of the billing months of May and November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a CC applicable to each Rate Category.

#### 3.05 Definitions

Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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M.D.T.E. No. 37  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

- (1) **Category Conservation Expenditures** shall mean those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of Conservation and Load Management programs that have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.
- (2) **Category Loan Repayments** shall mean those repayments of conservation loans properly assigned to a Rate Category.
- (3) **Category Reconciliation Adjustment** shall mean the dollar amount, whether positive or negative, required to reconcile any difference between the sum of Category Loan Repayments plus the revenues by Rate Category collected from customers pursuant to this rate schedule with respect to a given Rate Category during a given period of time and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.
- (4) **Conservation and Load Management ("CL&M") or Demand-Side Management ("DSM") Programs** shall be the Department-approved Company and third-party initiatives that assist customers with managing their gas usage.
- (5) **Conservation Charge** shall be the component of the Local Distribution Adjustment Factor ("LDAF") that recovers the costs associated with the Company's DSM and CL&M programs from customers.
- (6) **Interest** shall mean the consideration of the time value of money. Interest expense or credit shall be calculated for each separate cost recovery account as the average of the beginning and end of month balances in the account times the monthly interest rate equal to the consensus prime rate as reported by the *Wall Street Journal*.
- (7) **Rate Categories** shall mean the rate class groupings as set forth in Section 3.02.

### 3.06 **Calculation of Conservation Charge**

The Conservation Charge shall be calculated, by Rate Category, by dividing the allowable costs as defined by Section 3.03 by the sum of the forecast sales and throughput of the respective Rate Categories. The resulting CC shall be calculated for each six-month period beginning each May 1<sup>st</sup> and November 1<sup>st</sup> and reflected in the Local Distribution Adjustment Factor ("LDAF") that is applicable to actual sales and throughput of the respective Rate Categories.

### 3.07 **Reconciliation Adjustments**

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President

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Account 176.01 contains the accumulated difference between the sum of the Category Conservation Expenditures incurred by the Company during a given period of time and the sum of Category Loan Repayments and revenues collected from customers during such period of time, pursuant to this clause, with respect to a given Rate Category.

### 3.08 Application of CC to Bills

The CC (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly sales and throughput of each customer in the Rate Categories.

### 3.09 Information Required to be Filed with the Department

The Company shall submit semi-annual reports to the Department setting forth Category Conservation Expenditures, Category Loan Repayments, sales and throughput of the Rate Categories, Category Reconciliation Adjustment, Interest, and Category revenues under Section 3.0 of this clause, both as actually experienced and as estimated for the remaining forecast period

### 3.10 Other Rules

Whenever the Company determines that actual experience or updated estimates affecting the components of the calculated Conservation Charge indicate a difference of ten percent over or under the amount the Department has authorized to be collected during the period, the Company may make an interim filing during the effective period revising the Conservation Charge either up or down for the remainder of the period with the approval of the Department. An amended Conservation Charge must be submitted 10 days before the first billing cycle of the month in which it is to take effect.

## 4.0 Environmental Response Costs Allowable for LDAC

### 4.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and firm transportation customers environmental response costs associated with manufactured gas plants.

### 4.02 Applicability

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President

Issued On: April 27, 2005  
Effective: June 1, 2005

BAY STATE GAS COMPANY

M.D.T.E. No. 37  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

A Remediation Adjustment Cost ("RAC") charge shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 4.0 of this clause. Such RAC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

### 4.03 Environmental Cost Allowable

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one-half of any recoveries received by the Company as a result of such claims may be included in the LDAC.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five percent (5%) of the Company's total revenues from firm sales and transportation throughput during the preceding calendar year, with transportation revenues being adjusted by imputing the Company's cost of gas charges during the year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the Pre-tax Weighted Cost of Capital rate as defined in Section 4.05.

### 4.04 Effective Date

Forty-five (45) days prior to the first day of the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the RAC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

### 4.05 Definitions

- (1) Combined Tax Rate shall be the effective tax rate taking into consideration the statutory Federal and State income tax rates applicable to the Company.

BAY STATE GAS COMPANY

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Cancels M.D.T.E. No. 4  
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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

- (2) **Deferred Tax Benefit** shall be the unamortized portion of actual environmental response costs multiplied by the Company's currently effective statutory federal and state income tax rate, and by the Company's Pre-tax Weighted Cost of Capital as approved in its last rate proceeding.
- (3) **Environmental Response Costs** shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
- (4) **Expenses Associated with Insurance and Third-Party Claims** shall include the expenses incurred by the Company in pursuing insurance and third-party claims.
- (5) **Recoveries Associated with Insurance and Third-Party Claims** shall include the recoveries or other benefits received by the Company associated with the Company's Environmental Response Costs.
- (6) **Remediation Cost Recovery Year** is the annual period that the calculated RAC is to be effective beginning with the billing month of May.
- (7) **Unamortized Environmental Response Costs** shall be the Environmental Response Costs incurred by the Company and not reflected in the calculation of the RAC for the Remediation Cost Recovery Year.
- (8) **Weighted Cost of Capital** is the pre-tax weighted cost of capital as established by the Department in the Company's most recent base rate case.
- (9) **Weighted Cost of Debt** is the weighted cost of debt as established by the Department in the Company's most recent base rate case.

#### 4.06 **Reconciliation Adjustments**

##### **Calculation of the RAC**

The RAC consists of one-seventh of the actual Environmental Response Costs incurred by the Company in a calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of insurance and third-party recoveries for the calendar year, plus the prior year's RAC reconciliation adjustment. This amount is then divided by the Company's forecast of total-firm sales and firm transportation throughput for the upcoming year.

#### 4.07 **Remediation Adjustment Cost (RAC) Factor Formula**



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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

$$RAC = \frac{\text{sum (ERC)} - DTB + ((IE - IR) \times .5) + Rrac}{7} \div A : TP \text{ vol}$$

and:

$$DTB = UERC \times TR \times \left( \frac{(WCC - WCD) + WCD}{(1 - TR)} \right)$$

**Where:**

A:TPol	Forecast Annual throughput Volumes inclusive of all firm sales and firm transportation throughput.
DL	Number of Days Lag from the purchase of gas from suppliers to the payment by customers
DTB	Deferred Tax Benefit as defined in Section 4.05.
ERC	Environmental Response Costs as defined in Section 4.05.
IE	Expenses Associated with Insurance and Third-party Claims as defined in Section 7.05.
IR	Recoveries Associated with Insurance and Third-party Claims as defined in Section 4.05.
RAC	Remediation Adjustment Cost charge as defined in Section 4.08
Rrac	Remediation Adjustment Cost Reconciliation Adjustment - Account 176.02 balance as outlined in Section 4.08.
TR	Combined Tax Rate as defined in Section 4.05.
UERC	Unamortized Environmental Response Costs as defined in Section 4.05.
WCC	Weighted Cost of Capital as defined in Section 4.05.
WCD	Weighted Cost of Debt as defined in Section 4.05.

#### **4.08 Remediation Adjustment Cost (RAC) Factor Calculation**

- (1) The following definitions pertain to the Remediation Adjustment Clause (RAC) reconciliation adjustment calculations:
  - (a) **Remediation Adjustment Cost Expenses Allowable Per Formula** shall be:
    - i. One seventh of each calendar year's environmental response costs (ERC) as defined in Section 4.03, less the deferred tax benefit as defined in Section 4.05.
    - ii. One-half of insurance and third-party expenses (IE), less one-half of insurance and third-party recoveries (IR).
  - (b) **RAC (Remediation Adjustment Cost)** portion of the LDAF as computed in Section 4.07 is used as the convention for recognizing revenues toward Environmental Response Costs.

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Cancels M.D.T.E. No. 4  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

(2) **Calculation of the Reconciliation Adjustment 176.02**

Account 176.02 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

4.09 **Application of RAC to Bills**

The RAC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput.

4.10 **Information to be Filed with the Department**

The annual RAC filing will include copies of all bills and receipts relating to any Environmental Response Costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year as well as a schedule depicting the particular purpose of the amount of any Environmental Response Costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year.

5.0 **Pension and PBOP Expense Allowable for LDAC**

5.01 **Purpose**

The purpose of this provision is to establish a procedure that allows Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates for the recovery from its firm sales and firm transportation customers annual Pension and Postretirement Benefits Other than Pensions including any postemployment benefits other than pensions ("PBOP") expense as recorded on the Company's books including prepaid amounts.

5.02 **Applicability**

A Pension and PBOP Expense Factor ("PEF") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 5.0 of this clause. Such PEF shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

5.03 **Pension and PBOP Expense Allowable**

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Cancels M.D.T.E. No. 4  
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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

The Company's test year Pension and PBOP Expense established by the Department in D.T.E. 05-27 shall be deemed Allowable Pension and PBOP Expense. In addition, the difference between the actual Pension and PBOP Expense incurred in future years and the test year amount established by the Department shall also be deemed Allowable Pension and PBOP Expense. Allowable Pension and PBOP Expense shall include the actual pension expense, prepaid pension costs recognized in accordance with the Financial Accounting Standards Board's ("FASB") Statement No. 87 ("FAS 87"), PBOP recognized in accordance with FASB Statement Nos. 106 ("FAS 106") and 112 ("FAS 112"), and carrying costs associated with Unamortized Pension Deferral amounts as adjusted for deferred tax benefits for the Prior Year. The Department may allow a shorter amortization period in any year if it deems that such shorter period is appropriate. Allowable Pension and PBOP Expense shall also include prior period reconciliation and deferred amounts.

### 5.04 Amortization of Pension and PBOP Expense

The Test Year Level of Pension and PBOP Expense shall be established by the Department in D.T.E. 05-27. The difference between the actual Pension and PBOP Expense for the Prior Year and the Test Year Level, positive or negative, shall be amortized over a three-year period with one-third of the amount included in the LDAC to be effective for the upcoming year, one-third deferred for one year and one-third deferred for two years. The amortization shall include carrying costs calculated at the Weighted Cost of Capital.

### 5.05 Effective Date

Forty-five (45) days prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the PEF applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

### 5.06 Definitions

- (1) **Deferred Tax Benefit** shall be the sum of the unamortized portion of actual Pension and PBOP Expense not included in rates and the average prepaid amount multiplied by the Company's effective statutory federal and state income tax rate, and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.
- (2) **PBOP** shall be the Company's postretirement benefits other than pensions including

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**LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**

- any post-employment benefits other than pensions.
- (3) **Pension Plan** is a Qualified Pension Plan, as defined by the Employee Information Retirement Income Security Act of 1974, as amended from time to time.
  - (4) **Prepaid Amount** is the difference between the actual cash contributions to the Pension Plan and the pension expense amounts recognized in accordance with FAS 87.
  - (5) **Prior Year** is the calendar year previous to the effective date of the proposed PEF.
  - (6) **Pension Deferral** is the difference between the total Test Year Level of Pension and PBOP Expense established by the Department in D.T.E. 05-27 and the actual Pension and PBOP Expense booked by the Company for each Prior Year.
  - (7) **Test Year Level of Pension and PBOP Expense** shall be the annual Pension and PBOP Expense recoverable from customers as established by the Department in the Company's most recent base rate case.
  - (8) **Weighted Cost of Capital** is the pre-tax weighted cost of capital as set in the Company's most recent rate case.

**5.07 Pension and PBOP Expense Factor Formula**

$$PEF = \frac{TYLE + PD + (WCC \times (UPD + APA - DTB)) + RA_{PE}}{A:TPvol}$$

**And:**

$$PD = \frac{PD_T + PD_{T-1} + PD_{T-2}}{3}$$

**Where:**

A:TP <sub>vol</sub>	Forecast Annual Throughput Volumes inclusive of all firm sales and firm transportation throughput.
TYLE	Test Year Level of Pension and PBOP Expense as established by the Department in D.T.E. 05-27.
PD	The total amount of the Pension Deferral to be amortized in the upcoming year.
WCC	Pre-tax Weighted Cost of Capital.
UPD	The Unamortized Pension Deferral is the amount of the Pension Deferral not yet included in distribution rates. At the beginning of the year, the Unamortized Pension Deferral is the sum of: (1) the Unamortized Pension Deferral at the beginning of the Prior Year; plus (2) the Pension Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

APA	The Average Prepaid Amount is one half the sum of: (1) the Prepaid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Prepaid Amount recorded on the Company's books as of the end of the Prior Year.
DTB	Deferred Tax Benefit as defined in Section 5.06.
RA <sub>PE</sub>	Pension and PBOP Expense Reconciliation Adjustment - inclusive of the associated interest, as outlined in Section 5.08.
PD <sub>T</sub>	The amount of the current year's Pension Deferral.
PD <sub>T-1</sub>	The amount of the previous year's Pension Deferral.
PD <sub>T-2</sub>	The amount of the second previous year's Pension Deferral.

#### 5.08 Reconciliation Adjustments

The Company shall record the accumulated difference between revenues toward Pension and PBOP Expense as calculated by multiplying the Pension and PBOP Expense Factor (PEF) times monthly firm sales and transportation throughput and Pension and PBOP Expense allowed, plus carrying charges calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal* and then added to the end-of-month balance.

#### 5.09 Application of PEF to Bills

The PEF (\$ per therm) shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

#### 5.10 Information to be Filed with the Department

Information pertaining to the Pension and PBOP Expense will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual PEF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual PEF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period PEF filing will contain the calculation of the new annual PEF to become effective November 1 and will include the updated annual Pension and PBOP Expense reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### 6.0 Interruptible Transportation Margins Allowable for LDAC

#### 6.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin Credit ("ITMC") applicable to firm sales and firm transportation throughput in order to return to firm ratepayers the Interruptible Transportation margins allocated to the local distribution function.

#### 6.02 Applicability

An ITMC shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 6.0 of this clause. Such ITMC shall be determined seasonally by the Company as defined below and subject to review and approval by the Department as provided for in this clause.

The application of this provision may, for good cause shown, be modified by the Department. See Section 14.0, "Other Rules."

#### 6.03 Effective Date of Interruptible Transportation Margin

The peak ITMC shall become effective as of the first day of the first billing cycle of each peak period as designated by the Company. The off-peak ITMC shall become effective as of the first day of the first billing cycle of each off-peak period as designated by the Company.

#### 6.04 Definitions

- (1) Peak Period for Bay State is the six consecutive months of November through April.
- (2) Off-Peak Period for Bay State is the six consecutive months of May through October.

#### 6.05 Interruptible Transportation Margins

A threshold level of margins will be established annually for Interruptible Transportation Margins (ITM). Such level of margins shall be adjusted to reflect additions or losses from Customers who switch from FT, FS or IS, to IT, and conversely, from IT to FT, FS or IS. One hundred percent (100%) of margins earned up to the threshold level plus 75% of margins earned in excess of the threshold will be passed back to the firm sales and

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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

firm transportation customers as a credit contained in the LDAC. The Company shall adjust the threshold annually to reflect a new level of ITM for the twelve-month period ending April 30 of each year.

The ITMC shall be computed semiannually based on a forecast of ITM and firm sales and firm transportation throughput volumes. Forecasted ITM up to 100% of the threshold level plus 75% of the forecasted ITM above the threshold level are allocated to the peak period and off-peak period using the distribution capacity allocator from the Company's cost of service study filed in its last rate case.

#### Peak ITMC Formula

The Peak ITMC shall be calculated according to the following formulas:

$$ITMC_p = \frac{ITM_p}{P:TPvol} + RF_{PITM}$$

and:

$$RF_{PITM} = \frac{R_{PITM}}{P:TPvol}$$

#### Where:

ITMC <sub>p</sub>	Peak period Interruptible Transportation Margin Credit.
ITM <sub>p</sub>	Interruptible Transportation margins allocated to peak period, inclusive of the associated carrying charges as defined in Section 6.12.
RF <sub>PITM</sub>	Peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R <sub>PITM</sub>	Reconciliation costs - peak interruptible transportation margins, Account 176.24 balance, inclusive of the associated interest.
P : TP <sub>vol</sub>	Forecast peak period firm sales and firm transportation throughput.

#### Off-Peak ITMC Formula

The Off-Peak ITMC shall be calculated according to the following formulas:

$$ITMC_{op} = \frac{ITM_{op}}{OP:TPvol} + RF_{OPITM}$$

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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

and:

$$RF_{OPITM} = \frac{R_{OPITM}}{OP:TP_{vol}}$$

**Where:**

ITMC <sub>op</sub>	Off-peak period Interruptible Transportation Margin Credit.
ITM <sub>op</sub>	Interruptible Transportation margins allocated to off-peak period, inclusive of the associated carrying charges as defined in Section 6.12.
RF <sub>OPITM</sub>	Off-peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R <sub>OPITM</sub>	Reconciliation costs - Off-peak Interruptible transportation margins, Account 176.14 balance, inclusive of the associated interest.
OP : TP <sub>vol</sub>	Forecast off-peak period firm sales and firm transportation throughput.

#### 6.06 Reconciliation Adjustments

##### Peak ITM

Account 176.24 shall contain the accumulated difference between peak period, interruptible transportation margins returned toward the local distribution function, as calculated by multiplying the ITMC times monthly firm sales and firm transportation throughput during the peak period, and the actual margins allocated to the peak period.

##### Off-Peak ITM

Account 176.14 shall contain the accumulated difference between off-peak interruptible transportation margins returned toward the local distribution function as calculated by multiplying the ITMC times monthly firm sales plus firm transportation throughput during the off-peak period and the actual margins allocated to the off-peak period.

See Section 6.05 for Reconciliation formulas.

#### 6.07 Application of ITMC to Bills

The ITMC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) by period and will be applied to the monthly firm sales and firm transportation throughput.



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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### 6.08 Information to be Filed with the Department

Information pertaining to the Interruptible Transportation Margins will be filed with the Department along with the gas cost information as required pursuant to the LDAC and CGAC. Required filings include a monthly report providing actual data and resulting updated projection of end-of-period reconciliation balance, the seasonal calculation of the ITMC, which shall be included in a semiannual LDAF filing. Also, the seasonal ITM reconciliation balances shall be filed along with the other reconciliation balances included in the LDAC.

### 7.0 Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan

#### 7.01 Purpose

The purpose of this provision is to establish a mechanism for Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates to reflect a reduction in its revenues for failure to meet certain quality of service measure targets. This revenue reduction provision is pursuant to the Company's Service Quality Plan established in compliance with generic guidelines set forth by the Department of D.T.E. 99-84.

#### 7.02 Applicability

The Service Quality Revenue Adjustment ("SQRA") shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.10 of this clause. The SQRA shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

#### 7.03 Service Quality Revenue Adjustment Allowable for LDAC

The adjustment of revenues due to the Company's performance relating to certain service quality measure targets, will be based on the performance results for the calendar year and will be reflected in the LDAC for the subsequent twelve month period beginning with gas consumed May 1.

#### 7.04 Effective Date of Service Quality Revenue Adjustment

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Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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On March 1 of each year, or such other date as described by the Department, the Company will file with the Department for its consideration and approval, the Company's Service Quality Report for the prior year, which will contain the results of the Company's performance relative to benchmarks for each Service Quality Measure required by the Department. Based on the Company's performance for those Service Quality Measures that impose a penalty for performance that does not meet or exceed the established benchmarks, the Company will request a change in the SQRA applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

### 7.05 Definitions

- (1) Carrying Charges shall be the expense or credit calculated as the average of the beginning and end of month reconciliation balance times the monthly interest rate equal to the consensus prime rate as reported by the *Wall Street Journal*.
- (2) Service Quality Measure is a metric established by the Department for evaluating the Company's customer service.
- (3) Service Quality Plan shall be the program by which the Company's customer service quality is measured and reported, and includes applicable revenue reduction provisions
- (4) Service Quality Report is the report filed with the Department by the Company providing results of the Company's performance for each Service Quality Measure for the prior year.

### 7.06 Service Quality Revenue Adjustment Factor Formula

$$\text{SQRAF} = \frac{\text{SQRA} + \text{RASqrr}}{\text{A: TPvol}}$$

#### Where:

A:TPvol	Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
SQRA	Revenue adjustment associated with failure to meet service quality measure targets set forth in the Company's service quality plan and as described in Section 7.03.
RASQRA	Service Quality Revenue Adjustment - Reconciliation Adjustment - Account 176.06, as outlined in Section 7.06.

### 7.07 Reconciliation Adjustments

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Issued by: Stephen H. Bryant  
President

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Effective: June 1, 2005

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## **LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**

Account 176.06 shall contain the accumulated difference between the return of revenues toward the Service Quality Revenue Adjustment, as calculated by multiplying the Service Quality Revenue Adjustment Factor (SQRRF) times monthly firm sales and firm transportation throughput, and the reduction in revenues associated with failure to meet service quality measures allowed, plus Carrying Charges and then added to the end-of-month balance.

### **7.08 Application of SQRAF to Bills**

The SQRAF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput. If during any twelve-month period commencing with the first day of the billing months of May or November, the projected SQRAF is less than one one-hundredth of a cent (\$0.0001) per therm, the SQRAF account balance will be transferred to Account 176.06.

### **7.09 Information to be Filed with the Department**

Information pertaining to the Service Quality Revenue Adjustment will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. The peak filing will represent a revision to the annual SQRAF to become effective November 1, reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The off-peak period SQRAF filing will contain the calculation of the new annual SQRAF to become effective May 1 and will include the updated annual Service Quality Revenue Adjustment reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

## **8.0 Costs from Changes in Exogenous Factors**

### **8.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates to reflect the annualized known and measurable cost impacts from changes in exogenous factors. The determination of the appropriateness of the recovery of exogenous costs is subject to the review and approval of the Department pursuant to Department Order in D.T.E. 98-31.

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### 8.02 Applicability

The Exogenous Factor Costs ("EFC") shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 8.08 of this clause. The EFC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

### 8.03 Costs from Changes in Exogenous Factors Allowable for LDAC

Annualized cost impacts from changes in exogenous factors as approved by the Department. Costs, either positive or negative, must be known and measurable, beyond the Company's control and result from:

- (1) changes in tax laws that uniquely affect the regulated local gas distribution industry
- (2) accounting changes unique to the local gas distribution industry; and
- (3) regulatory, judicial, or legislative changes uniquely affecting the local gas distribution industry.

### 8.04 Effective Date of Exogenous Factors Cost Charge

Prior to the beginning of the billing month of May or November of each year, depending on the timing of the exogenous cost event and Department approval of recovery of the exogenous cost, the Company will file with the Department for its consideration and approval, the Company's request for the EFC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May or November.

### 8.05 Exogenous Factors Cost (EFC) Factor Formula

$$EFCF = \frac{EFC + RA_{EFC}}{A: TPvol}$$

#### Where:

A:TPvol	Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
EFC	Exogenous Factors Cost as described in Section 8.03.
RA <sub>EFC</sub>	Exogenous Factors Cost Reconciliation Adjustment - Account 176.07, inclusive of

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President

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the associated Account 176.07 interest, as outlined in Section 8.06.

### 8.06 Reconciliation Adjustments

Account 176.07 shall contain the accumulated difference between revenues toward Exogenous Factors Costs as calculated by multiplying the Exogenous Factors Cost Factor (EFCF) times monthly firm sales and transportation throughput and Exogenous Factors costs allowed, plus carrying charges and then added to the end-of-month balance.

### 8.07 Application of EFCF to Bills

The EFCF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent (\$0.0001) per therm and will be applied to the monthly firm sales and firm transportation throughput.

### 8.08 Information to be Filed with the Department

Information pertaining to the Exogenous Factors Costs will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC.

## 9.0 Effective Date of Local Distribution Adjustment Factor

The peak LDAF shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak LDAF shall become effective as of the first billing cycle of each off-peak period as designated by the Company.

## 10.0 Definitions

- (1) Peak Period - The six consecutive months of November through April.
- (2) Off-Peak Period - The six consecutive months of May through October.
- (3) Carrying Charges - Interest expense calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal*.

## 11.0 Local Distribution Adjustment Factor Formulas

The LDAF shall be calculated on a semi-annual basis, by customer class, by summing up the

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various factors included in the LDAC.

#### Peak LDAF Formula

$$\text{LDAF}_P^X = \text{CC}^X + \text{RAC} - \text{ITMC}_P + \text{EFCF} + \text{PEF} - \text{SQRAF}$$

#### Where:

CC <sup>X</sup>	Annualized class specific Conservation Charge
LDAF <sub>P</sub> <sup>X</sup>	Peak period class specific Local Distribution Adjustment Factor
ITMC <sub>P</sub>	Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
EFCF	Total firm Annualized Exogenous Factors Cost Factor
PPMF	Total firm Annualized Pension and PBOP Mechanism Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

#### Off-Peak LDAF Formula

$$\text{LDAF}_{OP}^X = \text{CC}^X + \text{RAC} - \text{ITMC}_{OP} + \text{EFCF} + \text{PPMF} - \text{SQRAF}$$

#### Where:

CC <sup>X</sup>	Annualized class specific Conservation Charge
LDAF <sub>OP</sub> <sup>X</sup>	Off-peak period class specific Local Distribution Adjustment Factor
ITMC <sub>OP</sub>	Off-Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
EFCF	Total firm Annualized Exogenous Factors Cost Factor
PEF	Total firm Annualized Pension and PBOP Expense Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

#### **12.0 Application of LDAF to Bills**

The LDAFs (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm

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transportation throughput for each customer in a Rate Category.

### 13.0 Information Required to be Filed with the Department

Information pertaining to all the components of the LDAC is to be filed with the Department as specified in the previous sections. The peak period filing will be made forty-five (45) days prior to the effective date. The peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

The off-peak period filing will be made forty-five (45) days prior to the effective date. The off-peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

### 14.0 Other Rules

- (1) The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such terms that it may determine to be in the public interest.
- (2) The Company may, at any time, file with the Department an amended LDAC. An amended LDAC filing must be submitted ten (10) days before the first billing cycle of the month in which it is proposed to take effect.
- (3) The Department may, at any time, require the Company to file an amended LDAC.
- (4) The operation of the LDAC is subject to all powers of suspension and investigation vested in the Department by G.L. c.164.

### 15.0 Customer Notification

The Company will design a notice, which explains in simple terms to customers, the LDAC, the nature of any change in the LDAC and the manner in which the LDAC is applied to the bill. This notice can be a part of the Company's GAF notice. The Company will submit the LDAC notice for approval at the time of each LDAC filing.

Upon approval by the Department, the Company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### Section

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- 2.0 Applicability
- 3.0 Demand Side Management Costs Allowable for Local Distribution Adjustment Clause (LDAC) -- Conservation Charge (CC)
- 4.0 Environmental Response Costs Allowable for LDAC -- (RAC)
- 5.0 Pension and PBOP Expense Allowable for LDAC -- (PEF)
- 6.0 Interruptible Transportation Margins Allowable for LDAC -- (ITM)
- ~~7.0 Third Party Expenses Related to Customer Choice Initiatives and Massachusetts Gas Unbundling Collaborative~~
- 87.0 Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan
- 98.0 Exogenous Factors
- ~~109.0~~ Effective Date of Local Distribution Adjustment Factor -- (LDAF)
- ~~110.0~~ Definitions
- ~~121.0~~ Local Distribution Adjustment Factor (LDAF) Formulas
- ~~1312.0~~ Application of LDAF to Bills
- ~~1413.0~~ Information Required to be Filed With the Department
- ~~1514.0~~ Other Rules
- ~~1615.0~~ Customer Notification

### 1.0 Purpose

The purpose of this clause is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on a semi-annual basis, its rates for firm gas sales and firm transportation service in order to recover demand-side management DSM-costs, environmental response costs, return the interruptible transportation margins allocated to distribution services, ~~recover third party legal, consulting, printing, postage and meeting room rental expenses related to Customer Choice initiatives and unbundling costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative ("MGUC")~~, reflect changes in exogenous factors, and compensate firm rate payers for failure to meet certain service quality measures.

### 2.0 Applicability

This Local Distribution Adjustment Clause ("LDAC") shall be applicable to all of Bay State's firm sales and firm transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section ~~1514.0~~, "Other Rules."



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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### 3.0 Demand Side Management Costs Allowable for LDAC

#### 3.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a semiannual basis, the Conservation Charge applicable to firm sales and firm transportation throughput in order to recover from firm ratepayers Conservation and Load Management program costs and associated expenditures.

#### 3.02 Applicability

A Conservation Charge ("CC") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 3.0 of this clause. Such CC shall be determined semiannually separately for each Rate Category as defined below.

For purposes of applying the respective CC the Company's tariff rate schedules are combined into CC Rate Categories as follows:

Residential Non-Heating	(Rates R-1, R-2, T-R1, T-R2)
Residential Heating	(Rates R-3, R-4, T-R3, T-R4)
Commercial/Industrial	(Rates G-40, G-41, G-42, G-43, G-50, G-51, G-52, G-53, T-40, T-41, T-42, T-43, T-50, T-51, T-52, T-53)

#### 3.03 Costs Allowable for LDAC

Category Conservation Expenditures associated with Demand Side Management ("DSM") or Conservation and Load Management ("C&LM") programs are included in the CC. In addition, the CC shall include the credit of Category Loan Repayments, Category Reconciliation Adjustments, and Interest as defined in Section 3.05.

#### 3.04 Effective Date of Conservation Charge

Forty-five (45) days prior to the first day of the beginning of the billing months of May and November of each year, the Company will file with the Department for its

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consideration and approval, the Company's request for a CC applicable to each Rate Category.

#### 3.05 Definitions

- (1) Category Conservation Expenditures shall mean those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of Conservation and Load Management programs that have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.
- (2) Category Loan Repayments shall mean those repayments of conservation loans properly assigned to a Rate Category.
- (3) Category Reconciliation Adjustment shall mean the dollar amount, whether positive or negative, required to reconcile any difference between the sum of Category Loan Repayments plus the revenues by Rate Category collected from customers pursuant to this rate schedule with respect to a given Rate Category during a given period of time and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.
- (4) Conservation and Load Management ("CL&M") or Demand-Side Management ("DSM") Programs shall be the Department-approved Company and third-party initiatives that assist customers with managing their gas usage.
- (5) Conservation Charge shall be the component of the Local Distribution Adjustment Factor ("LDAF") that recovers the costs associated with the Company's DSM and CL&M programs from customers.
- (46) Interest shall mean the consideration of the time value of money. Interest expense or credit shall be calculated for each separate cost recovery account as the average of the beginning and end of month balances in the account times the monthly interest rate equal to the consensus prime rate as reported by the *Wall Street Journal* as defined in Section 11.0.
- (57) Rate Categories shall mean the rate class groupings as set forth in Section 3.02.

#### 3.06 Calculation of Conservation Charge

The Conservation Expenditure Charge component of the CC shall be calculated, by Rate Category, by dividing the allowable costs as defined by Section 3.03 by the sum of the forecast sales and throughput of the respective Rate Categories. The resulting CC shall be calculated for each six-month period beginning each May 1<sup>st</sup> and November 1<sup>st</sup> and

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

reflected in the Local Distribution Adjustment Factor ("LDAF") that is applicable to actual sales and throughput of the respective Rate Categories.

### 3.07 Reconciliation Adjustments

Account 176.01 contains the accumulated difference between the sum of the Category Conservation Expenditures incurred by the Company during a given period of time and the sum of Category Loan Repayments and revenues collected from customers during such period of time, pursuant to this clause, with respect to a given Rate Category.

### 3.08 Application of CC to Bills

The CC (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly sales and throughput of each customer in the Rate Categories.

### 3.09 Information Required to be Filed with the Department

The Company shall submit semi-annual reports to the Department setting forth Category Conservation Expenditures, Category Loan Repayments, sales and throughput of the Rate Categories, Category Reconciliation Adjustment, Interest, and Category revenues under Section 3.0 of this clause, both as actually experienced and as estimated for the remaining forecast period

### 3.10 Other Rules

Whenever the Company determines that actual experience or updated estimates affecting the components of the calculated Conservation Charge indicate a difference of ten percent over or under the amount the Department has authorized to be collected during the period, the Company may make an interim filing during the effective period revising the Conservation Charge either up or down for the remainder of the period with the approval of the Department. An amended Conservation Charge must be submitted 10 days before the first billing cycle of the month in which it is to take effect.

## 4.0 Environmental Response Costs Allowable for LDAC

### 4.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to

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the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and firm transportation customers environmental response costs associated with manufactured gas plants.

### 4.02 Applicability

A Remediation Adjustment Cost ("RAC") charge shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 4.0 of this clause. Such RAC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

### 4.03 Environmental Cost Allowable

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one-half of any recoveries received by the Company as a result of such claims may be included in the LDAC.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five percent (5%) of the Company's total revenues from firm sales and transportation throughput during the preceding calendar year, with transportation revenues being adjusted by imputing the Company's cost of gas charges during the year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the Pre-tax Weighted Cost of Capital rate as defined in Section 4.05.

### 4.04 Effective Date

Forty-five (45) days prior to the first day of the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the RAC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

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### 4.05 Definitions

- (1) Combined Tax Rate shall be the effective tax rate taking into consideration the statutory Federal and State income tax rates applicable to the Company.
- (+2) Deferred Tax Benefit shall be the unamortized portion of actual environmental response costs multiplied by the Company's currently effective statutory federal and state income tax rate, and by the Company's Pre-tax Weighted Cost of Capital as approved in its last rate proceeding.
- (23) Environmental Response Costs shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
- (34) Expenses and Recoveries Associated with Insurance and Third-Party Claims shall include one-half the expenses incurred by the Company in pursuing insurance and third-party claims and one-half of any recoveries or other benefits received by the Company as a result of such claims.
- (4) Pre-tax Weighted Cost of Capital is the result of the calculation of the weighted cost of capital minus the weighted cost of debt, divided by one minus the combined tax rate, plus the weighted cost of debt.
- (5) Recoveries Associated with Insurance and Third-Party Claims shall include the recoveries or other benefits received by the Company associated with the Company's Environmental Response Costs.
- (6) Remediation Cost Recovery Year is the annual period that the calculated RAC is to be effective beginning with the billing month of May.
- (7) Unamortized Environmental Response Costs shall be the Environmental Response Costs incurred by the Company and not reflected in the calculation of the RAC for the Remediation Cost Recovery Year.
- (8) Weighted Cost of Capital is the pre-tax weighted cost of capital as established by the Department in the Company's most recent base rate case.
- (9) Weighted Cost of Debt is the weighted cost of debt as established by the Department in the Company's most recent base rate case.

### 4.06 Reconciliation Adjustments

#### Calculation of the RAC

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The RAC consists of one-seventh of the actual Environmental Response Costs incurred by the Company in a calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of insurance and third-party recoveries for the calendar year, plus the prior year's RAC reconciliation adjustment. This amount is then divided by the Company's forecast of total firm sales and firm transportation throughput for the upcoming year.

#### 4.07 Remediation Adjustment Cost (RAC) Factor Formula

$$\text{RAC} = \frac{\text{sum (ERC)} - \text{DTB} + ((\text{IE} - \text{IR}) \times .5) + \text{Rrac}}{7 \times \text{A : TP vol}}$$

and:

$$\text{DTB} = \text{UERC} \times \text{TR} \times \left( \frac{(\text{WCC} - \text{WCD}) + \text{WCD}}{(1 - \text{TR})} \right)$$

#### Where:

A:TPol	Forecast Annual throughput Volumes inclusive of all firm sales and firm transportation throughput.
DL	Number of Days Lag from the purchase of gas from suppliers to the payment by customers
DTB	Deferred Tax Benefit as defined in Section 4.05.
ERC	Environmental Response Costs as defined in Section 4.05.
IE	Expenses Associated with pursuing Insurance and <del>Third-party claims</del> Claims as defined in Section <del>77.045</del> .
IR	Recoveries Associated with Insurance and <del>third</del> Third-party Claims Recoveries as defined in Section 4.05.
RAC	Remediation Adjustment Cost charge as defined in Section 4.08
Rrac	Remediation Adjustment Cost Reconciliation Adjustment - Account 176.02 balance as outlined in Section 4.08.
TR	Combined Tax Rate as defined in Section 4.05. <del>currently effective federal plus state income tax rates</del>
UERC	Unamortized Environmental Response Costs as defined in Section 4.05.
WCC	Weighted Cost of Capital as defined in Section 4.05.
WCD	Weighted Cost of Debt as defined in Section 4.05.

#### 4.08 Remediation Adjustment Cost (RAC) Factor Calculation

Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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- (1) The following definitions pertain to the Remediation Adjustment Clause (RAC) reconciliation adjustment calculations:
  - (a) **Remediation Adjustment Cost Expenses Allowable Per Formula** shall be:
    - i. One seventh of each calendar year's environmental response costs (ERC) as defined in Section 4.03, less the deferred tax benefit as defined in Section 4.05.
    - ii. One-half of insurance and third-party expenses (IE), less one-half of insurance and third-party recoveries (IR).
  - (b) **RAC (Remediation Adjustment Cost)** portion of the LDAF as computed in Section 4.07 is used as the convention for recognizing revenues toward Environmental Response Costs.
- (2) **Calculation of the Reconciliation Adjustment 176.02**  
Account 176.02 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

### 4.09 **Application of RAC to Bills**

The RAC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput.

### 4.10 **Information to be Filed with the Department**

The annual RAC filing will include copies of all bills and receipts relating to any Environmental Response Costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year as well as a schedule depicting the particular purpose of the amount of any Environmental Response Costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year.

## 5.0 **Pension and PBOP Expense Allowable for LDAC**

### 5.01 **Purpose**

The purpose of this provision is to establish a procedure that allows Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates for the recovery from its firm sales and firm transportation customers annual Pension and Postretirement Benefits Other than Pensions including any postemployment benefits other than pensions ("PBOP") expense as recorded on the Company's books including prepaid amounts.

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### 5.02 Applicability

A Pension and PBOP Expense Factor ("PEF") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 5.0 of this clause. Such PEF shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

### 5.03 Pension and PBOP Expense Allowable

The Company's test year Pension and PBOP Expense established by the Department in D.T.E. 05-27 shall be deemed Allowable Pension and PBOP Expense. In addition, the difference between the actual Pension and PBOP Expense incurred in future years and the test year amount established by the Department shall also be deemed Allowable Pension and PBOP Expense. Allowable Pension and PBOP Expense shall include the actual pension expense, prepaid pension costs recognized in accordance with the Financial Accounting Standards Board's ("FASB") Statement No. 87 ("FAS 87"), PBOP recognized in accordance with FASB Statement Nos. 106 ("FAS 106") and 112 ("FAS 112"), and carrying costs associated with Unamortized Pension Deferral amounts as adjusted for deferred tax benefits for the Prior Year. The Department may allow a shorter amortization period in any year if it deems that such shorter period is appropriate. Allowable Pension and PBOP Expense shall also include prior period reconciliation and deferred amounts.

### 5.04 Amortization of Pension and PBOP Expense

The Test Year Level of Pension and PBOP Expense shall be established by the Department in D.T.E. 05-27. The difference between the actual Pension and PBOP Expense for the Prior Year and the Test Year Level, positive or negative, shall be amortized over a three-year period with one-third of the amount included in the LDAC to be effective for the upcoming year, one-third deferred for one year and one-third deferred for two years. The amortization shall include carrying costs calculated at the Weighted Cost of Capital.

### 5.05 Effective Date

Forty-five (45) days prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the PEF applicable to all firm sales and firm



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transportation throughput for the subsequent twelve month period commencing with the billing month of November.

#### 5.06 Definitions

- (1) **Deferred Tax Benefit** shall be the sum of the unamortized portion of actual Pension and PBOP Expense not included in rates and the average prepaid amount multiplied by the Company's effective statutory federal and state income tax rate, and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.
- (2) **PBOP** shall be the Company's postretirement benefits other than pensions including any post-employment benefits other than pensions.
- (3) **Pension Plan** is a Qualified Pension Plan, as defined by the Employee Information Retirement Income Security Act of 1974, as amended from time to time.
- (4) **Prepaid Amount** is the difference between the actual cash contributions to the Pension Plan and the pension expense amounts recognized in accordance with FAS 87.
- (5) **Prior Year** is the calendar year previous to the effective date of the proposed PEF.
- (6) **Pension Deferral** is the difference between the total Test Year Level of Pension and PBOP Expense established by the Department in D.T.E. 05-27 and the actual Pension and PBOP Expense booked by the Company for each Prior Year.
- (7) **Test Year Level of Pension and PBOP Expense** shall be the annual Pension and PBOP Expense recoverable from customers as established by the Department in the Company's most recent base rate case.
- (78) **Weighted Cost of Capital** is the pre-tax weighted cost of capital as set in the Company's most recent rate case.

#### 5.07 Pension and PBOP Expense Factor Formula

$$PEF = \frac{TYLE + PD + (WCC \times (UPD + APA - DTB)) + RA_{PE}}{A:TPvol}$$

And:

$$PD = \frac{PD_T + PD_{T-1} + PD_{T-2}}{3}$$

Where:

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A:TP <sub>vol</sub>	Forecast Annual Throughput Volumes inclusive of all firm sales and firm transportation throughput.
TYLE	Test Year Level of Pension and PBOP Expense as established by the Department in D.T.E. 05-27.
PD	The total amount of the Pension Deferral to be amortized in the upcoming year.
WCC	Pre-tax Weighted Cost of Capital.
UPD	The Unamortized Pension Deferral is the amount of the Pension Deferral not yet included in distribution rates. At the beginning of the year, the Unamortized Pension Deferral is the sum of: (1) the Unamortized Pension Deferral at the beginning of the Prior Year; plus (2) the Pension Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.
APA	The Average Prepaid Amount is one half the sum of: (1) the Prepaid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Prepaid Amount recorded on the Company's books as of the end of the Prior Year.
DTB	Deferred Tax Benefit as defined in Section 5.06.
RA <sub>PE</sub>	Pension and PBOP Expense Reconciliation Adjustment - inclusive of the associated interest, as outlined in Section 5.08.
PD <sub>T</sub>	The amount of the current year's Pension Deferral.
PD <sub>T-1</sub>	The amount of the previous year's Pension Deferral.
PD <sub>T-2</sub>	The amount of the second previous year's Pension Deferral.

#### **5.08    Reconciliation Adjustments**

The Company shall record the accumulated difference between revenues toward Pension and PBOP Expense as calculated by multiplying the Pension and PBOP Expense Factor (PEF) times monthly firm sales and transportation throughput and Pension and PBOP Expense allowed, plus carrying charges calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal* and then added to the end-of-month balance.

#### **5.09    Application of PEF to Bills**

The PEF (\$ per therm) shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

#### **5.10    Information to be Filed with the Department**

Information pertaining to the Pension and PBOP Expense will be filed with the Department consistent with the filing requirements of all costs and revenue information

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included in the LDAC. Required filings include the semiannual PEF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual PEF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period PEF filing will contain the calculation of the new annual PEF to become effective November 1 and will include the updated annual Pension and PBOP Expense reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

### 6.0 Interruptible Transportation Margins Allowable for LDAC

#### 6.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin Credit ("ITMC") applicable to firm sales and firm transportation throughput in order to return to firm ratepayers the Interruptible Transportation margins allocated to the local distribution function.

#### 6.02 Applicability

An ITMC shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 6.0 of this clause. Such ITMC shall be determined seasonally by the Company as defined below and subject to review and approval by the Department as provided for in this clause.

The application of this provision may, for good cause shown, be modified by the Department. See Section ~~15~~14.0, "Other Rules."

#### 6.03 Effective Date of Interruptible Transportation Margin

The peak ITMC shall become effective as of the first day of the first billing cycle of each peak period as designated by the Company. The off-peak ITMC shall become effective as of the first day of the first billing cycle of each off-peak period as designated by the Company.

#### 6.04 Definitions

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- (1) Peak Period for Bay State is the six consecutive months of November through April.
- (2) Off-Peak Period for Bay State is the six consecutive months of May through October.

#### 6.05 Interruptible Transportation Margins

A threshold level of margins will be established annually for Interruptible Transportation Margins (ITM). Such level of margins shall be adjusted to reflect additions or losses from Customers who switch from FT, FS or IS, to IT, and conversely, from IT to FT, FS or IS. One hundred percent (100%) of margins earned up to the threshold level plus 75% of margins earned in excess of the threshold will be passed back to the firm sales and firm transportation customers as a credit contained in the LDAC. The Company shall adjust the threshold annually to reflect a new level of ITM for the twelve-month period ending April 30 of each year.

The ITMC shall be computed semiannually based on a forecast of ITM and firm sales and firm transportation throughput volumes. Forecasted ITM up to 100% of the threshold level plus 75% of the forecasted ITM above the threshold level are allocated to the peak period and off-peak period using the distribution capacity allocator from the Company's cost of service study filed in its last rate case.

#### Peak ITMC Formula

The Peak ITMC shall be calculated according to the following formulas:

$$ITMC_p = \frac{ITM_p}{P:TP_{vol}} + RF_{PITM}$$

and:

$$RF_{PITM} = \frac{R_{PITM}}{P:TP_{vol}}$$

#### Where:

ITMC <sub>p</sub>	Peak period Interruptible Transportation Margin Credit.
ITM <sub>p</sub>	Interruptible Transportation margins allocated to peak period, inclusive of the associated carrying charges as defined in Section 6.12.
RF <sub>PITM</sub>	Peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.

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$R_{PITM}$  Reconciliation costs - peak interruptible transportation margins, Account 176.24 balance, inclusive of the associated interest.  
 $P : TP_{vol}$  Forecast peak period firm sales and firm transportation throughput.

#### Off-Peak ITMC Formula

The Off-Peak ITMC shall be calculated according to the following formulas:

$$ITMC_{op} = \frac{ITM_{op}}{OP:TP_{vol}} + RF_{OPITM}$$

and:

$$RF_{OPITM} = \frac{R_{OPITM}}{OP:TP_{vol}}$$

#### Where:

$ITMC_{op}$  Off-peak period Interruptible Transportation Margin Credit.  
 $ITM_{op}$  Interruptible Transportation margins allocated to off-peak period, inclusive of the associated carrying charges as defined in Section 6.12.  
 $RF_{OPITM}$  Off-peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.  
 $R_{OPITM}$  Reconciliation costs - Off-peak Interruptible transportation margins, Account 176.14 balance, inclusive of the associated interest.  
 $OP : TP_{vol}$  Forecast off-peak period firm sales and firm transportation throughput.

#### 6.06 Reconciliation Adjustments

##### Peak ITM

Account 176.24 shall contain the accumulated difference between peak period, interruptible transportation margins returned toward the local distribution function, as calculated by multiplying the ITMC times monthly firm sales and firm transportation throughput during the peak period, and the actual margins allocated to the peak period.

##### Off-Peak ITM

Account 176.14 shall contain the accumulated difference between off-peak interruptible

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transportation margins returned toward the local distribution function as calculated by multiplying the ITMC times monthly firm sales plus firm transportation throughput during the off-peak period and the actual margins allocated to the off-peak period.

See Section 6.05 for Reconciliation formulas.

### 6.07 Application of ITMC to Bills

The ITMC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) by period and will be applied to the monthly firm sales and firm transportation throughput.

### 6.08 Information to be Filed with the Department

Information pertaining to the Interruptible Transportation Margins will be filed with the Department along with the gas cost information as required pursuant to the LDAC and CGAC. Required filings include a monthly report providing actual data and resulting updated projection of end-of-period reconciliation balance, the seasonal calculation of the ITMC, which shall be included in a semiannual LDAF filing. Also, the seasonal ITM reconciliation balances shall be filed along with the other reconciliation balances included in the LDAC.

## ~~7.0 Third Party Expenses Related to Customer Choice Initiatives and all Unbundling Expenses Associated with Participation in the MGUC~~

### ~~7.01 Purpose~~

~~The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery of incremental third party expenses associated with its customer choice initiatives. Further, this provision allows Bay State to adjust, on an annual basis, its rates for the recovery of all unbundling costs associated with the Company's participation in the MGUC, as defined in Section 7.03 (2).~~

### ~~7.02 Applicability~~

~~The Customer Choice Third Party Expenses (CCE) shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.07 of this~~

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~~clause. The CCE shall be determined annually by the Company, as defined below, and subject to review and approval by the Department, as provided for in this clause.~~

#### ~~7.03 Customer Choice Expenses Allowable for LDAC~~

- ~~(1) Third party costs remaining to be recovered associated with its customer choice initiatives and pertaining specifically to legal, consulting, printing, postage and meeting room rentals. The recovery of these costs in any one year shall not exceed the maximum annual cost recovery established in D.P.U. 97-97. Amounts in excess of this cap will be recovered in subsequent years.~~
- ~~(2) All unbundling costs associated with the Company's participation in the MGUC.~~

#### ~~7.04 Effective Date of Customer Choice Expense Charge~~

~~Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the CCE applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.~~

#### ~~7.05 Definition~~

- ~~(1) Customer Choice Initiatives are activities facilitating the development, design and implementation of unbundled services for all customers.~~
- ~~(2) Unbundling Costs are all costs associated with the Company's participation in the MGUC, including, but not limited to, any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.~~

#### ~~7.06 Customer Choice Expense (CCE) Factor Formula~~

$$\frac{CCEF - CCE + RA_{CCE}}{A: TPvol}$$

#### Where:

- A:TPvol — Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
- CCE — Customer Choice Expenses as defined in Section 7.05.
- RA<sub>CCE</sub> — Customer Choice Expense Reconciliation Adjustment Account 176.05 inclusive of the associated Account 176.05 interest, as outlined in Section 7.07.

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### 7.07 Reconciliation Adjustments

Account 176.05 shall contain the accumulated difference between revenues toward Customer Choice Expenses as calculated by multiplying the Customer Choice Expense Factor (CCEF) times monthly firm sales and firm transportation throughput and Customer Choice expenses allowed, plus Carrying Charges and then added to the end-of-month balance.

### 7.08 Application of CCEF to Bills

The CCEF (\$ per therm) shall be calculated to the nearest one one hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput. If, during any twelve month period commencing with the first day of the billing month of November, the projected CCEF is less than one one hundredth of a cent (\$0.0001) per therm, the CCEF account balance shall be transferred to Account 176.05.

### 7.09 Information to be Filed with the Department

Information pertaining to the Customer Choice Expenses will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. The off-peak filing will represent a revision to the annual CCEF to become effective with gas consumed beginning May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period CCEF filing will contain the calculation of the new annual CCEF to become effective with gas consumed beginning November 1 and will include the updated annual Customer Choice Expense reconciliation balance.

## 87.0 Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan

### 87.01 Purpose

The purpose of this provision is to establish a mechanism for Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates to reflect a reduction in its revenues for failure to meet certain quality of service measure targets. This revenue reduction provision is pursuant to the Company's Service Quality Plan established in compliance with generic guidelines set forth by the Department of D.T.E. 99-84.

### 87.02 Applicability



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The Service Quality Revenue Adjustment ("SQRA") shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 87.10 of this clause. The SQRA shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

#### **87.03 Service Quality Revenue Adjustment Allowable for LDAC**

The adjustment of revenues due to the Company's performance relating to certain service quality measure targets, will be based on the performance results for the calendar year and will be reflected in the LDAC for the subsequent twelve month period beginning with gas consumed May 1.

#### **87.04 Effective Date of Service Quality Revenue Adjustment**

On March 1 of each year, or such other date as described by the Department, the Company will file with the Department for its consideration and approval, the Company's Service Quality Report for the prior year, which will contain the results of the Company's performance relative to benchmarks for each Service Quality Measure required by the Department. Based on the Company's performance for those Service Quality Measures that impose a penalty for performance that does not meet or exceed the established benchmarks, the Company will request a change in the SQRA applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

#### **7.05 Definitions**

- (1) **Carrying Charges** shall be the expense or credit calculated as the average of the beginning and end of month reconciliation balance times the monthly interest rate equal to the consensus prime rate as reported by the *Wall Street Journal*.
- (2) **Service Quality Measure** is a metric established by the Department for evaluating the Company's customer service.
- (3) **Service Quality Plan** shall be the program by which the Company's customer service quality is measured and reported, and includes applicable revenue reduction provisions
- (4) **Service Quality Report** is the report filed with the Department by the Company providing results of the Company's performance for each Service Quality Measure for the prior year.

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**§ 7.0506 Service Quality Revenue Adjustment Factor Formula**

$$\text{SQRAF} = \frac{\text{SQRA} + \text{RASqrr}}{\text{A: TPvol}}$$

**Where:**

A:TPvol      Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.  
SQRA          Revenue adjustment associated with failure to meet service quality measure targets set forth in the Company's service quality plan and as described in Section 87.03.  
RASQRA      Service Quality Revenue Adjustment - Reconciliation Adjustment - Account 176.06, as outlined in Section 87.06.

**87.0607 Reconciliation Adjustments**

Account 176.06 shall contain the accumulated difference between the return of revenues toward the Service Quality Revenue Adjustment, as calculated by multiplying the Service Quality Revenue Adjustment Factor (SQRRF) times monthly firm sales and firm transportation throughput, and the reduction in revenues associated with failure to meet service quality measures allowed, plus Carrying Charges and then added to the end-of-month balance.

**87.0708 Application of SQRAF to Bills**

The SQRAF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput. If during any twelve-month period commencing with the first day of the billing months of May or November, the projected SQRAF is less than one one-hundredth of a cent (\$0.0001) per therm, the SQRAF account balance will be transferred to Account 176.06.

**87.0809 Information to be Filed with the Department**

Information pertaining to the Service Quality Revenue Adjustment will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. The peak filing will represent a revision to the annual SQRAF to become effective November 1, reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The off-peak period SQRAF

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filing will contain the calculation of the new annual SQRAF to become effective May 1 and will include the updated annual Service Quality Revenue Adjustment reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

### **98.0 Costs from Changes in Exogenous Factors**

#### **98.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates to reflect the annualized known and measurable cost impacts from changes in exogenous factors. The determination of the appropriateness of the recovery of exogenous costs is subject to the review and approval of the Department pursuant to Department Order in D.T.E. 98-31.

#### **98.02 Applicability**

The Exogenous Factor Costs ("EFC") shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 98.08 of this clause. The EFC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

#### **98.03 Costs from Changes in Exogenous Factors Allowable for LDAC**

Annualized cost impacts from changes in exogenous factors as approved by the Department. Costs, either positive or negative, must be known and measurable, beyond the Company's control and result from:

- (1) changes in tax laws that uniquely affect the regulated local gas distribution industry
- (2) accounting changes unique to the local gas distribution industry; and
- (3) regulatory, judicial, or legislative changes uniquely affecting the local gas distribution industry.

#### **98.04 Effective Date of Exogenous Factors Cost Charge**

Prior to the beginning of the billing month of May or November of each year, depending on the timing of the exogenous cost event and Department approval of recovery of the

BAY STATE GAS COMPANY

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### LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

exogenous cost, the Company will file with the Department for its consideration and approval, the Company's request for the EFC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May or November.

#### **98.05 Exogenous Factors Cost (EFC) Factor Formula**

$$EFCF = \frac{EFC + RA_{EFC}}{A: TPvol}$$

#### **Where:**

A:TPvol      Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.  
EFC            Exogenous Factors Cost as described in Section 98.03.  
RA<sub>EFC</sub>        Exogenous Factors Cost Reconciliation Adjustment - Account 176.07, inclusive of the associated Account 176.07 interest, as outlined in Section 98.06.

#### **98.06 Reconciliation Adjustments**

Account 176.07 shall contain the accumulated difference between revenues toward Exogenous Factors Costs as calculated by multiplying the Exogenous Factors Cost Factor (EFCF) times monthly firm sales and transportation throughput and Exogenous Factors costs allowed, plus carrying charges and then added to the end-of-month balance.

#### **98.07 Application of EFCF to Bills**

The EFCF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent (\$0.0001) per therm and will be applied to the monthly firm sales and firm transportation throughput.

#### **98.08 Information to be Filed with the Department**

Information pertaining to the Exogenous Factors Costs will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC.

#### **109.0 Effective Date of Local Distribution Adjustment Factor**

Issued by: Stephen H. Bryant  
President

Issued On: April 27, 2005  
Effective: June 1, 2005

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The peak LDAF shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak LDAF shall become effective as of the first billing cycle of each off-peak period as designated by the Company.

### 1110.0 Definitions

- (1) Peak Period - The six consecutive months of November through April.
- (2) Off-Peak Period - The six consecutive months of May through October.
- (3) Carrying Charges - Interest expense calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal*.

### 1211.0 Local Distribution Adjustment Factor Formulas

The LDAF shall be calculated on a semi-annual basis, by customer class, by summing up the various factors included in the LDAC.

#### Peak LDAF Formula

$$LDAF_P^X = CC^X + RAC - ITMC_P + CCEF + EFCF + PEF - SQRAF$$

#### Where:

CC <sup>X</sup>	Annualized class specific Conservation Charge
LDAF <sub>P</sub> <sup>X</sup>	Peak period class specific Local Distribution Adjustment Factor
ITMC <sub>P</sub>	Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
CCEF	Total firm Annualized Customer Choice Expense Factor
EFCF	Total firm Annualized Exogenous Factors Cost Factor
PPMF	Total firm Annualized Pension and PBOP Mechanism Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

#### Off-Peak LDAF Formula

$$LDAF_{OP}^X = CC^X + RAC - ITMC_{OP} + CCEF + EFCF + PPMF - SQRAF$$

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## LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

### Where:

CC <sup>X</sup>	Annualized class specific Conservation Charge
LDAF <sub>OP</sub> <sup>X</sup>	Off-peak period class specific Local Distribution Adjustment Factor
ITMC <sub>OP</sub>	Off-Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
CCEF	Total firm Annualized Customer Choice Expense Factor
EFCF	Total firm Annualized Exogenous Factors Cost Factor
PEF	Total firm Annualized Pension and PBOP Expense Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

### 12.0 Application of LDAF to Bills

The LDAFs (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput for each customer in a Rate Category.

### 13.0 Information Required to be Filed with the Department

Information pertaining to all the components of the LDAC is to be filed with the Department as specified in the previous sections. The peak period filing will be made forty-five (45) days prior to the effective date. The peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

The off-peak period filing will be made forty-five (45) days prior to the effective date. The off-peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

### 14.0 Other Rules

- (1) The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such terms that it may determine to be in the public interest.
- (2) The Company may, at any time, file with the Department an amended LDAC. An amended LDAC filing must be submitted ten (10) days before the first billing cycle of the month in which it is proposed to take effect.

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**LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**

- (3) The Department may, at any time, require the Company to file an amended LDAC.
- (4) The operation of the LDAC is subject to all powers of suspension and investigation vested in the Department by G.L. c.164.

**1615.0 Customer Notification**

The Company will design a notice, which explains in simple terms to customers, the LDAC, the nature of any change in the LDAC and the manner in which the LDAC is applied to the bill. This notice can be a part of the Company's GAF notice. The Company will submit the LDAC notice for approval at the time of each LDAC filing.

Upon approval by the Department, the Company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM THE DOER.  
D. T. E. 05-27

Date: June 13, 2005

Responsible: Lawrence Kaufmann

DOER 1-15: Please provide O&M cost as a percentage of total costs for the Company on an annual basis over the time period 1999-2003.

Response: Table DOER-1-15 includes information is presented on Bay State's O&M cost and total distribution revenues; the latter is a proxy for the Company's total cost.

**Table DOER-1-15**

	Distribution Revenue	O&M Expenses	Percentage
1999	155,035,037	74,096,114	47.8%
2000	165,204,890	77,741,265	47.1%
2001	159,822,170	75,169,900	47.0%
2002	159,847,616	83,794,794	52.4%
2003	172,731,503	83,038,764	48.1%



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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-1      Refer to Exh. BSG/JAF-2 at 19. Please confirm that the referenced special contract customer that has been assigned a distribution rate increase is MASSPOWER.

Response:    The referenced special contract customer is MASSPOWER.

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Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-2      Refer to Exh. BSG/JAF-2 at 19. Has Bay State filed separately with confidential treatment requested the details concerning the specific rates which will be charged the five special contract customers? If so, please provide the documents filed that relate to MASSPOWER. If not, please indicate when or if such a filing will be made.

Response:      The Company has not filed the details concerning the specific rates, which will be charged the five special contract customers. However, in response to AG-7-01, AG-7-02, AG-7-03 and AG-7-04, a file in Excel format was provided, in which a special contract tab showed the volumes and revenues from the 5 special contract customers. The names of the customers were withheld, as they were listed as Customer No. 1 – No. 5.

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Date: July 13, 2005

Responsible: Joseph Ferro, Manager Regulatory Policy

MP 1-3      Refer to Exh. BSG/JAF-2 at 20. In the case of the other special contract where a rate increase is tied to any change in the Company's firm Off-system rate:

(a) Please indicate whether any increase in rates has ever been assessed under this contractual provision, when such assessment(s) occurred, and when they ceased.

(b) Please confirm that it is the Company's position that because the Company's firm Off-system rate no longer exists, a contractual rate increase provision tied to that rate is unenforceable and void and no rate increase may occur pursuant to such provision.

(c) If this is not the Company's position, please state the Company's position and explain how it is being implemented in the context of the referenced special contract.

Response:      (a) A rate increase to that special contract customer was assessed with the Company's last base rate change in D.P.U 97-97, effective November 1, 1998. Since there were no other base rate changes (and any impacting firm Off-system customers), there have been no other rate changes to this customer.

(b) Yes, since the contract tied any increase to an increase to the firm Off-system class, the Company had no basis to assess an increase.

(c) See part (b).

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph Ferro, Manager Regulatory Policy

MP 1-6 Refer to the August 1991 Firm Transportation Agreement between Bay State and MASSPOWER (the "Agreement") at 4-5.

(a) Please provide your calculation of the "sum of the revenues received from Bay State's firm on-system and off-system sales customers."

(b) Please explain how Bay State determined what constitutes an "on-system and "off-system" sales customer.

(c) Please describe how Bay State defines an "on-system transportation customer."

(d) Please describe Bay State's interpretation of the meaning of the phrase "as such figure is utilized by the Department" as used in the Agreement's definition of "base firm revenues."

Response: (a) As stated on page 20 of Exhibit BSG/JAF-2, the "sum of the revenues received from Bay State's firm on-system and off-system sales customers" is represented on lines 5, 6 and 7 of Schedule JAF-1-1, Sheet 2 of 2. These revenues represent all of the Company's firm base rate or delivery service revenues. The detail of the derivation of these revenues is shown on Schedule JAF-1-2, and further monthly detail is shown in WP JAF-1-2.

(b) Firm on-system sales customers are those customers connected to the Company's distribution system and have arranged for 365-day service, comprised of delivery (or transportation) and gas supply of natural gas. The Company at one-time also had firm off-system sales customers, a class consisting of other natural gas utilities and municipalities taking bundled sales service from interconnects between the companies' systems. Since this was a firm service, the base rate portion of these revenues was operating revenues that were reflected in the Company's cost of service, and as such would be considered a part of the Company's "base firm revenues." The key characteristic of determining the test year revenues that figure into determining an increase to the special contract customer is that the revenues are generated from the Company providing firm service. Note that the Off-system Sales revenue shown on line 8 of Schedule JAF-1-1 represent non-firm upstream sales, the revenues from which are credited through

the Cost of Gas mechanism.

(c) An "on-system transportation customer" is connected to the Company's distribution system and has arranged for 365-day delivery service, and has arranged to purchase his gas supply from an unregulated competitive gas supplier.

(d) Please see part (b).

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

- MP 1-9      If the Department approves Bay State's requests for annual rate adjustment mechanisms (e.g., SIR Rate Base Adjustment mechanism, performance based rate mechanism), does the Company intend to seek yearly adjustments to the monthly demand rate and interruptible transportation rate under Section 6 of the Agreement.
- Response:    The Company intends to allocate a portion of the PBR component of the Annual Base Rate Adjustment Mechanism ("ABRAM") to MassPower. Accordingly, the Company will need to revise its ABRAM illustrative calculation to show a portion of the PBR percentage adjustment being allocated to MassPower. The Company does not, however, intend to apply the adjustment to base rates associated with the SIR or Energy Efficiency therm savings to MassPower. The Company will not seek to apply the base rate adjustment associated with the SIR because the accelerated replacement of steel pipe is unrelated to providing service to MassPower through the separate high pressure Monson/Palmer line, and thus does not impact the cost structure associated with serving MassPower. The Company's energy efficiency programs (offered measures or charges) do not apply to MassPower, and thus the Energy Efficiency savings adjustment is not applicable.

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-11      Refer to Exh. BSG/JAF-2 at 20. Please provide the calculation and process used to verify that the rates under the Agreement exceed the marginal cost of service.

Response:    Please see response to AG-9-19.

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-16      Please provide copies of all notices regarding base revenue changes and all other revenue changes which have updated the rates for service provided to MASSPOWER since August 1991. Provide a history which identifies all changes to the initial rates and the Department approval associated with the change in the components of the definition of base firm revenues related to the change in the rates charged to MASSPOWER.

Response:    The Company has not sought an adjustment to MassPower's rates / charges since the execution of the contract. The Company's last general base rate increase was effective on November 1, 1992, prior to the commencement of service to MassPower in August 1993.



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FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph Ferro, Manager Regulatory Policy

MP 1-17      Please identify any changes in the Department's definition of firm on-system sales, firm off-system sales and firm on-system sales since 1991. Describe all changes in the regulatory concepts and collection of costs from those customer categories since 1991, providing citation to the Department's orders approving such changes.

Response:    The Company is not aware any changes in the Department's definition of firm on-system sales and firm off-system sales since 1991. Please also see response to MP-1-6.

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-18      Please identify if MASSPOWER received any change in rates associated with the Department's approval of rate changes in D.T.E. 97-97. Provide a calculation of the impact of any change and a copy of all notices and/or communications by Bay State to MASSPOWER related to the Department proceeding and order in D.T.E. 97-97.

Response:    MASSPOWER did not receive any change in rates associated with the Department's approval of rate changes in D.T.E. 97-97. Please also see response to MP-1-16.

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RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM MASSPOWER  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

MP 1-19      Please provide the same information requested in MP 1-18 regarding  
D.T.E. 92-111.

Response:    MASSPOWER did not receive any change in rates associated with the  
Department's approval of rate changes in D.P.U. 92-111. Please also  
see response to MP-1-16.

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DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273  
D. T. E. 05-27

Date: July 13, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

UWUA-2-12 Please explain what circumstances would result in Bay State reporting negative unaccounted for gas in any of its service quality reports to the Department regarding unaccounted gas.

Response: Unaccounted-for ("UAF") gas is the difference between the volume of gas purchased and sent out for delivery to end-use customers and the measured volume of gas used by customers. Bay State's annual UAF has been at reasonable levels over recent time. For the past three calendar years the Company's sendout versus sales volumes has resulted in reporting UAF as follows:

2002: - 0.14%

2003: +1.40%

2004: +0.68%

Because these percentages are small, differences in the timing of measuring the receipts of purchased gas volumes and customers' use of gas, as well as billing for those gas volumes and recording all volumes on the Company's books, can result in a small negative UAF percentage.

The primary cause of timing differences is that the Company purchases and records the sendout of gas volumes on a monthly basis and bills its customers for volumes on a billing cycle basis, consisting of 22 billing cycles a month. This creates a mismatch between billed sales volumes (approximately one-half related to the previous month and one-half related to the current month) and purchased / sendout calendar month volumes. To address this mismatch for reporting and accounting purposes, the Company calculates monthly "unbilled" volumes – volumes yet to be billed in a calendar month but have been purchased and sent out in that month. Calculated unbilled volumes for a current month are added to the calendar month period, while the unbilled volumes for the previous calendar month period are deducted from that calendar month. Over time, unbilled volumes net to zero. However, for an annual period, the comparison and the inherent inaccuracies of estimating / calculating the unbilled volumes associated with the first and last months of the annual period can result in higher recorded sales volumes than actual experience (reality), creating a minor negative UAF, especially when the Company is experiencing a low level of UAF.